Annual Report

and Sustainability Update

2013-2014

Teachers Mutual Bank
We put you first

Our vision

Teachers Mutual Bank will be the 'first choice' bank for all teachers and their families for all of their financial needs.

Our mission statement

Teachers Mutual Bank will create and deliver personalised products and services specifically for teachers.

We will make it easier for them to save money and make money at every stage of their life in order for them to maximise their financial health and wellbeing.

Teachers Mutual Bank will protect and improve our competitive positioning, member equity and value through sustainable business practices.

Cover: Ngoc Thaun, member since 2008
This page: Adam, member since 2001

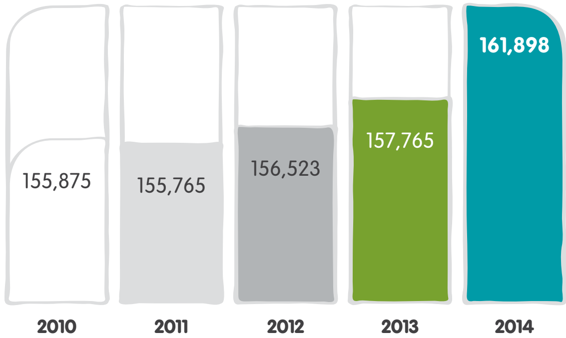
Contents

Key financial performance

Our focus is to maintain sustainable growth to ensure that we provide the competitive products and services that enable our members to secure their financial future.

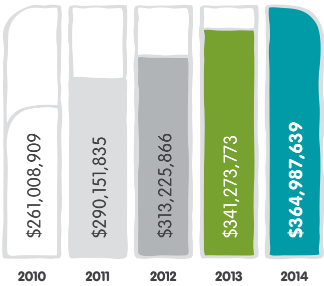
Capital adequacy ratio

Capital adequacy is an industry ratio which measures the strengths of a lending institution. We are well above APRA's minimum requirements of 8%.



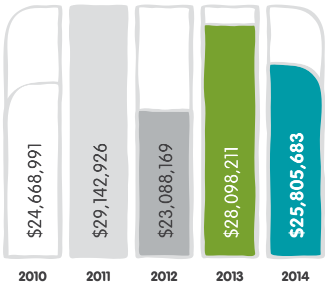
Membership

Membership refers to all shareholders that are eligible to join under the common bond. Our membership has grown significantly in FY2013-14 and continues to grow strong.



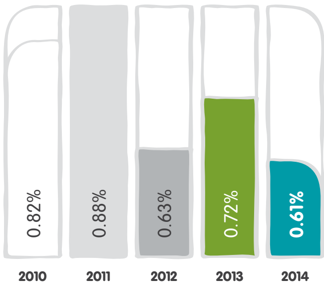
Reserves

Reserves are accumulated profits held by us to ensure our ability to safely grow.



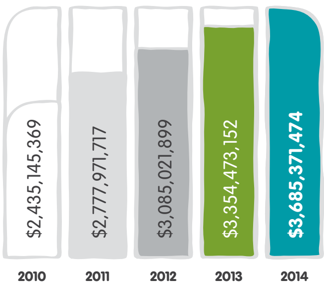
Profit after income tax

Profit after income tax is the amount of money we generate from operating our products and services minus the cost of providing those products and services, including all taxes.



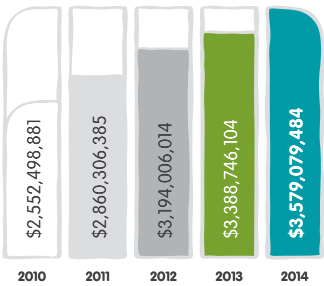
Return on assets

Return on assets measures how profitable a company is relative to its total average assets and shows how efficiently a company uses its assets.



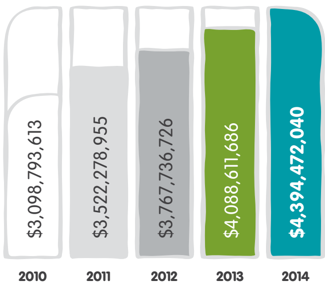
Loan balances

Loan balances is the total of money owed to us by our members from personal loans, secured (home) loans, credit cards and overdrafts.



Member deposits

Member deposits are made up of savings, investments and shares, excluding interest accrued.



Assets

Assets are the total of all Teachers Mutual Bank assets.

This Annual Report was informed by the issues most important to our operations and key stakeholders. These issues were determined through a review of our employees, a survey of members and other stakeholders and a review of our business risks and opportunities over the reporting period.

15.72%

Capital adequacy ratio as of 30 June 2014

Jane, member since 2001

Chairperson and Chief Executive's report

For 48 years, Teachers Mutual Bank has been putting you first. Our aim has always been to deliver innovative products and services combined with competitive interest rates and product pricing to the people we are here to serve – our members.

Our education sector focus, sound 48-year heritage and history of good management make up the solid foundation that enables us to maintain our position as one of Australia's leading mutuals. These elements also sustain our continuously robust financial position, helping us to safely navigate the challenges of the Australian marketplace.

2014 has been another successful year for Teachers Mutual Bank, as you will see from our full financial results at the end of this Report. A quick snapshot of some of the key indicators shows our capital adequacy ratio was strong at 15.72%, well beyond prudential requirements, and our capital reserves continued their year-on-year increase to stand at $365 million.

Our asset base grew by 7.48% to $4.4 billion and our surplus for the year was $25.8 million, a healthy result in a financial year characterised by generally flat or falling interest rates, and cautious optimism in both domestic and international economies.

One of our strongest performing areas of growth was home loans, where we continue to punch above our weight, in a challenging market.

The growth in our home loan portfolio of 11.44% outperformed our peers, being significantly higher than the banking industry average. Part of this success is due to our new initiative of providing loans through home loan brokers.

Our expectations on entering the home loan broker market have been comfortably exceeded, and we now have agreements with a wide range of brokers who are eager to support our mutual bank brand. We work closely with them to deliver our home loan products to even more members and potential members. With fifty per cent of Australian home loans now facilitated by brokers, Teachers Mutual Bank is well-positioned to prosper in the mortgage market.

This year we abolished some transaction fees, invested strongly in our information technology, and introduced new, competitive products for members. One such product has been our new market-leading mortgage offset facility.

While many financial institutions offer a home loan offset facility, it is usually only available on a small number of selected mortgage products. As a mutual bank we seek to provide you, our members, with real choice and opportunity to improve your financial wellbeing, so we developed a pioneering solution where our offset is available on all of our home loan products.

Teachers Mutual Bank has always been a financial institution that embraces strong values. Ethical business practices and sustainability are at our very heart.

We were especially honoured to be recognised at an international level in 2014 by the Ethisphere Institute, which named Teachers Mutual Bank as one of the World's Most Ethical Companies.

To be part of this select group is a testament to the cultural values of mutuality held by our Board, our members and our staff.

Our deep-rooted community focus means we are staunch supporters of a range of large and small education sector programs, and we are constantly looking for new ways to help you, our members. Working with our teacher community partners and other stakeholders, a key part of our mission is to ensure that our profits are used for good, especially within the education community. Examples of this can be found on page 12 of this Report. Our close collaboration with schools and principals helps us to provide teachers and staff with the best financial and in-kind support for the vital work they do.

In the coming year members can look forward to the launch of our new website, and by the time this Report is released there will already be improved functionality on our internet banking service. Banking on the go will get easier too, as we offer more mobile payment options and mobile phone apps. Ways to communicate with us will expand exponentially as we engage on social media networks. We already have a LinkedIn page – please visit us there and join the conversation – and will soon be engaging on Facebook, Twitter and other channels to create a seamless dialogue with our members.

$365M

in capital reserves as of 30 June 2014

From an investment perspective, we are in the process of diversifying our sources of capital to improve our flexibility, growth potential and cost effectiveness. We'll be providing streamlined and digital solutions to enhance member experience in managing their accounts and applying for products and services. We also continue to look for more ways to work paper-free!

Helping teachers and their families achieve a brighter financial future is the goal that drives and inspires us. The casual teacher who needs to buy a car to travel to schools in different locations, or the young couple hoping to buy their first home in a capital city with spiralling house prices, face very real challenges. In the coming year we will provide products and services that cater to those specific needs, and support the education community in their financial wellbeing.

In 2015, we'll build on the strong growth, innovative product development, prudent lending and exceptional loan quality that have been the hallmarks of our success, and we look forward to taking you on the journey with us.

John Kouimanos
Chairperson

Steve James
Chief Executive Officer

4.1%

of profits invested in the community in 2013-2014

Christine, member since 2004

Our priority areas

We are committed to:

- Members
- Sustainable business practices
- Education community
- Environment
- Employees

We were named one of the World's Most Ethical Companies.[1] We are one of only three Australian organisations to be named.

Sustainability is integrated and integral to us

We are a purpose-driven bank, striving to become a leader in sustainable business practices.

As a mutual bank, we integrate sustainability throughout our operations and governance systems, and in our relationships with our key stakeholders.

Our members tell us that they want their bank to use its profits to be a force for positive environmental and social change, which is why we put sustainability at the front and centre of our business. We also make sure we are measurable and accountable, using international standards to gauge our performance.

We are committed to playing our part in creating a better world, not only for our members and the teaching community, but also the planet and the people on it.

We have invested in community initiatives, reduced our environmental footprint, embedded sustainability into our business policies and benchmarked our results against the world leaders in sustainability. We have been recognised both nationally and internationally for our commitment to sustainable practices, but we believe there is always room for improvement and we are committed to continually looking for new ways to create positive change.

In the past 12 months we have continued to improve our organisational performance, focusing on our five sustainability priority areas – our members, sustainable business practices, the education community, the environment and our employees.

Highlights include:

- Being named one of the World's Most Ethical Companies.[1] We were awarded this title for our exceptional corporate ethics and governance. We are one of only three Australian organisations to be named, and one of only five banks in the world.
- Continuing to move up the international CSR ladder, scoring 91% in the prestigious annual Corporate Responsibility Index (CR Index).[2] We excelled in community investment, workplace management and employee development, achieving a higher result despite tougher and more challenging CR Index criteria for 2014.
- Being measured as a global leader in community investment for the second year running in the London Benchmarking Group (LBG)[3] – Australia & New Zealand 2013. We invest 4.1% of profits back into the education community in the form of grants, scholarships, sponsorships and social partnerships, a rate 12 times higher than the financial industry sector average.
- Receiving the United Nations Association of Australia (UNAA) Sustainability Leadership Award[4] for establishing environmental and social performance as a priority, alongside financial performance. The award also recognised our proactive approach to fossil fuel investment and climate change.

We exist for the mutual benefit of our members

Everything we do is to ensure that our members have a brighter financial future. We aim to be everything you want in a bank, every time.

We believe that teachers do one of the most important jobs in the world. This is demonstrated in a short video we produced earlier this year, showing just how much teachers are role models, dedicated educators and pillars of our community. The video also highlights our commitment to sustainability and belief that profit has a purpose. To view the video go to *tmbank.com.au/tfm*.

Building stronger connections with more members

This year we appointed a designated Universities Relationship Manager to help us build closer connections with, and provide more support for, the unique needs of education students and new teachers.

A large proportion of Australians now source their mortgages through home loan brokers. Ever-responsive to the needs of our members, we have joined the broker channel and are now working with a range of brokers to ensure that members and potential members who prefer this option will have access to our home loan products.

We have one of the highest levels of member satisfaction in the industry. We're proud to have achieved 90% member satisfaction in a poll conducted by GALKAL.[5] We were also named 'Bank of the Month' in the Roy Morgan Customer Satisfaction Awards[8] for five consecutive months in 2014, achieving the top bank customer satisfaction score.

Whether it's over the phone, or face to face at our offices or member events, you'll always find someone friendly who will go out of their way to help you with your finances and make you smile.

Making banking easier

We are always on the hunt for simple but effective solutions to help take the hassle out of banking, give you back some peace of mind and even some minutes in your day!

Over the past 12 months we have:

- Launched a market-leading 100% mortgage offset facility – available across all home loan products, including investment loans. Our research told us that virtually all other Australian banks only provide offset on a small number of their mortgage products. We don't see why you shouldn't be able to have savings offset on absolutely all of our home loan products – and now you can!
- Upgraded our mobile banking app – providing improved mobile banking functionality for members who are on the go. We're also one of the first banks to offer a location-based ATM finder for a smartphone.
- Created a shorter online home loan application form – making it easier and quicker for members who want to apply for a home loan online.
- Streamlined phone authorisations and transactions – giving members the ability to register for SMS or internet banking, change their daily limit for internet banking and other options, over the phone.
- Received two *Money* magazine awards[6] – Cheapest Credit Card (Bank) and Best Transactor Credit Card (Bank) – it's good to have our products endorsed for their value and competitiveness by a respected organisation that thoroughly researches the market.

86,365
active internet banking users

33,473
active mobile banking users

90%

member satisfaction achieved in a poll conducted by GALKAL[5]

Shane, member since 2005

91%

staff retention rate – one of the highest in the banking, insurance and financial services sector

Kim, David, Di and Geoff (left to right) from Teachers Mutual Bank's Mature Age Worker Program

Our employees are our most valuable resource

We strive to create an engaged workforce by having fair and equitable policies in place that enhance the working environment.

We promote a healthy work/life balance and have a reputation for caring for our employees. We encourage and support staff to pursue further study, with education at the heart of our culture. We provide leadership programs, flexible work practices, competitive remuneration and attractive staff benefits, allowing us to recruit and retain high-quality employees.

Our high Staff Satisfaction and Engagement scores[7] of 84% are a reflection of this.

Mature Age Worker Program

As part of the Federal Government's Corporate Champions initiative, we've implemented a Mature Age Worker Program. Through a combination of in-house seminars and practical advice, the program is designed to assist employees in successfully transitioning to retirement, reducing the stress associated with this life-changing decision and ensuring they are aware of all the options available to them.

Development Education Conference

Since 1984, the international Development Education Conference has encouraged and fostered the principles of the co-operative movement. In 2013, two employees proudly represented Teachers Mutual Bank at this annual event in Auckland, New Zealand. Since returning, they've been working together to promote the value of the co-operative movement, assisting with volunteer network development and expanding our involvement in the activities of the Credit Union Foundation of Australia (CUFA).

Australian HR Director of the Year Finalist

Our Chief Human Resources Officer, Helen O'Reilly, was a finalist in the Australian HR Director of the Year Awards in 2013. Her recognition and success is an indication of the level of care and commitment she has shown to the employees of Teachers Mutual Bank since joining us in 1990.

Emerging Leader Tertiary/ Vocational Education Scholarship Awards

In 2013, Jazmin Hinkley from our Business Development team and Danielle Albany from Human Resources were each awarded an Emerging Leader Tertiary/Vocational Education Scholarship by the mutual industry body COBA (Customer Owned Banking Association). This award continues a proud tradition of recognising talent within the mutual sector. Both received scholarships to undertake further vocational or tertiary study, and to help make mutual banking home to the nation's best and brightest.

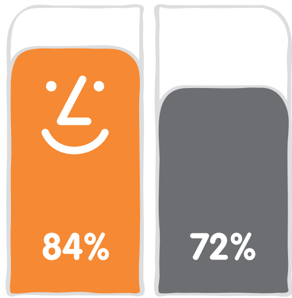
Institute of Financial Services Top Student Award

Deborah Hall from our Credit Department won the Institute of Financial Services Top Student Award for 2013 for her outstanding results in completing Certificate IV in Financial Services.

84%

staff engagement

Our flexible work practices, strong leadership programs, generous remuneration and attractive benefits allow us to attract and retain high-quality employees.

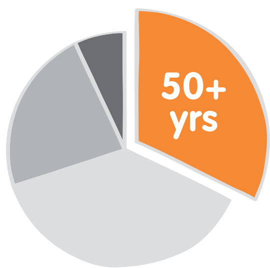


Teachers Mutual Bank Staff
National Finance Sector Average

32%

of staff are over 50 years of age

We are proud to boast that our mature-age workers have an average of 11 years service, totalling over 1,500 years of corporate knowledge.



18-24 years
25-34 years
35-50 years
50+ years

Teachers are at the heart of our business and our communities

We create opportunities for teachers and the education community to flourish, because we believe that profit has a purpose.

We demonstrate our passion for education by investing a minimum of 3% of our profits back into the community, supporting initiatives that are important to our members, both in Australia and in third world countries such as Myanmar and Cambodia. Our total community investment is measured using the London Benchmarking Group (LBG) framework, the internationally recognised evaluation standard (see page 7).

Among the long-running initiatives we operate ourselves are scholarships for aspiring teachers (Future Teacher Scholarships) and grants to help teachers educate students about the environment (Teachers Environment Fund). One recipient of a Teachers Environment Fund grant was Fairfield Primary School, which created a kitchen garden to help teach literacy to refugee students from war-torn countries like Syria.

Professional development is an important need in the education community. We provide financial support for Departments of Education conferences and events in several states that extend and improve school curricula by providing upskilling and training opportunities for principals, deputy principals, teachers, school administration staff and support employees.

We support a wide range of initiatives across Australia, including:

- Over 150 teacher development conferences and events
- NSW DEC Dance Festivals and Music Festivals, including the Schools Spectacular
- NSW School Sport
- ACT School Sport
- ACT Step into the Limelight Festival
- WA Department of Education Awards
- National Alliance for Remote Indigenous Schools (NARIS)
- NSW Premier's Teachers Mutual Bank New and Emerging Technologies Scholarship
- Stewart House, a facility for children who are dealing with health or family issues

Future Teacher Scholarships

Our Future Teacher Scholarships help aspiring teachers who may be facing a particular financial challenge on their journey. This year we provided scholarships of $5000 each to seven Australian university students and extended the program by awarding 10 runners up with $250 each. The scholarship recipients were from all walks of life and a range of ages, but all shared a dream of becoming a teacher and making a difference, despite some obstacles in their way.

Support for bushfire victims

During the devastating fires of summer 2013/14, we created a package of measures to help bushfire-affected members sort out their immediate financial issues, and provided $500 to each member who lost their home, to help them purchase immediate essentials.

The Public Education Foundation

As a Foundation partner, we provide a 'Harvard Club of Australia Teachers Mutual Bank Scholarship' worth $10,000, which sends one principal from a government primary or secondary school to a professional education program at Harvard Graduate School of Education in the US. Our inaugural winner was John Goh, Principal of Merrylands East Public School in Sydney. John, the son of a World War II refugee and a passionate supporter of public education, is a prominent blogger who hosts a regular global Twitter chat about primary school education.

Myanmar Teachers Project

Our Credit Union Foundation Australia (CUFA) partnership aims to help break the poverty cycle in Myanmar, by generating extra money via community credit union initiatives to help pay teachers' salaries. The project is targeted to benefit a total of 22 schools, 157 teachers and 5,495 schoolchildren.

$35K

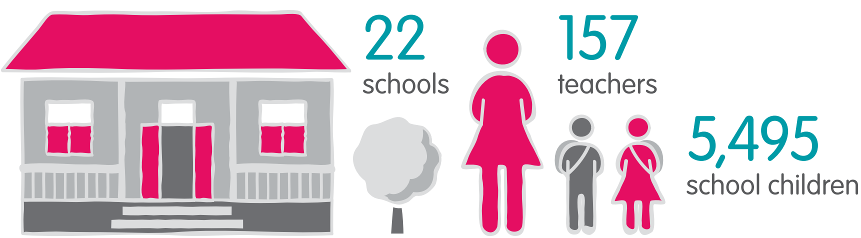
awarded to 7 Future Teacher Scholarship recipients

4.1%

of pre-tax profits invested in the community in 2013-2014

Rob, 2014 Future Teacher Scholarship recipient, with daughter, Abby. Members since 2014

Myanmar Teachers Project



The extra returns generated are then used to help pay teachers' salaries in a community in Myanmar.

$370K

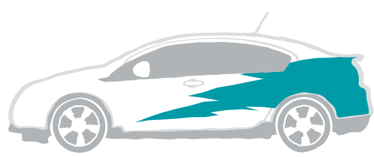
in Teachers Environment Fund grants to 141 schools, TAFEs and CITs since 2008

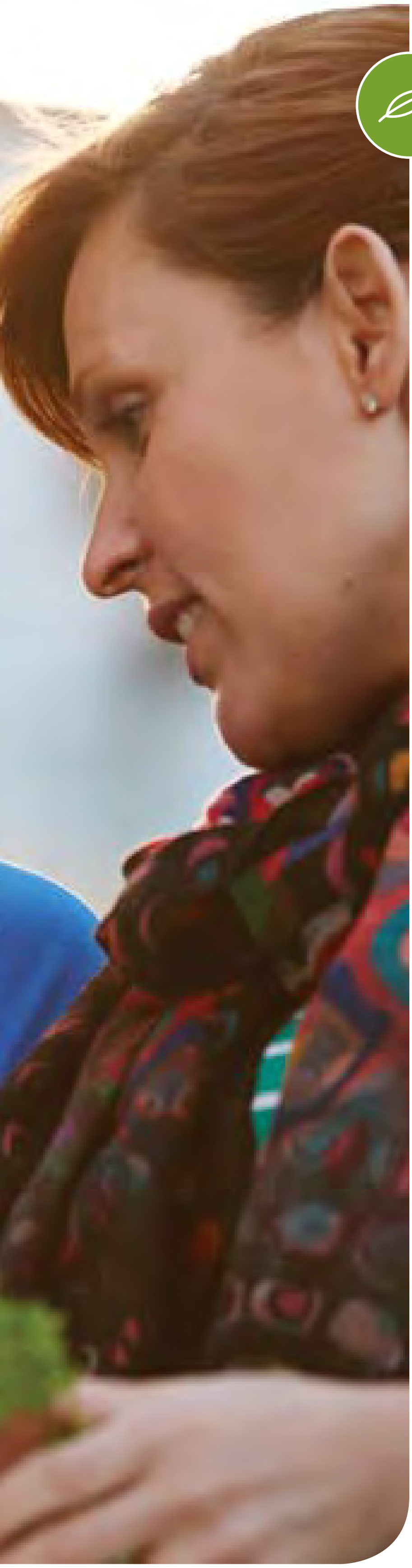
Henry and Alison, members since 2003 and 1986

$0

Teachers Mutual Bank does not use members' funds to finance large-scale greenhouse-gas pollution.

Meet Edison:
this car is electric!





Investing in the environment

We want the next generation to live in a better world. So we invest in social and environmental programs that help create positive change now for a better tomorrow.

As a responsible business we continually look for ways to reduce our impact on the environment. This year we have made solid progress, affirming our investment policy, reducing our consumption and continuing to invest in environmental education grants.

Highlights include:

Becoming carbon neutral

By investing in three carbon offset projects in the Asia-Pacific region, each with robust credentials, we have been able to reduce our carbon emissions to zero, making us a carbon neutral bank. One such project is the Antai steel mill waste gas recovery project in China, which reduces greenhouse gas emissions and local air pollution by capturing waste gas and using it to generate electricity and heat.

Investing in an electric future

This year we purchased our fleet's first electric car, a Holden Volt. The Volt is used by staff when travelling between offices and schools, reducing our greenhouse gas pollution. The Volt can drive for around 80km without the need of any petrol.

"We just plug the car in and charge it like a mobile phone."

Steve James, CEO

Investing in climate change

We published 'Our approach to climate change' this year, detailing our position on fossil fuel investment.

Teachers Mutual Bank policy is that;

- We have zero direct investment in any large-scale greenhouse gas polluting activity or company.
- We do not use members' funds to finance large-scale greenhouse gas pollution.
- We do not use members' deposits to directly lend to, buy equity or debt in any large-scale greenhouse gas polluting activities from fossil fuel exploration, extraction, production or use.

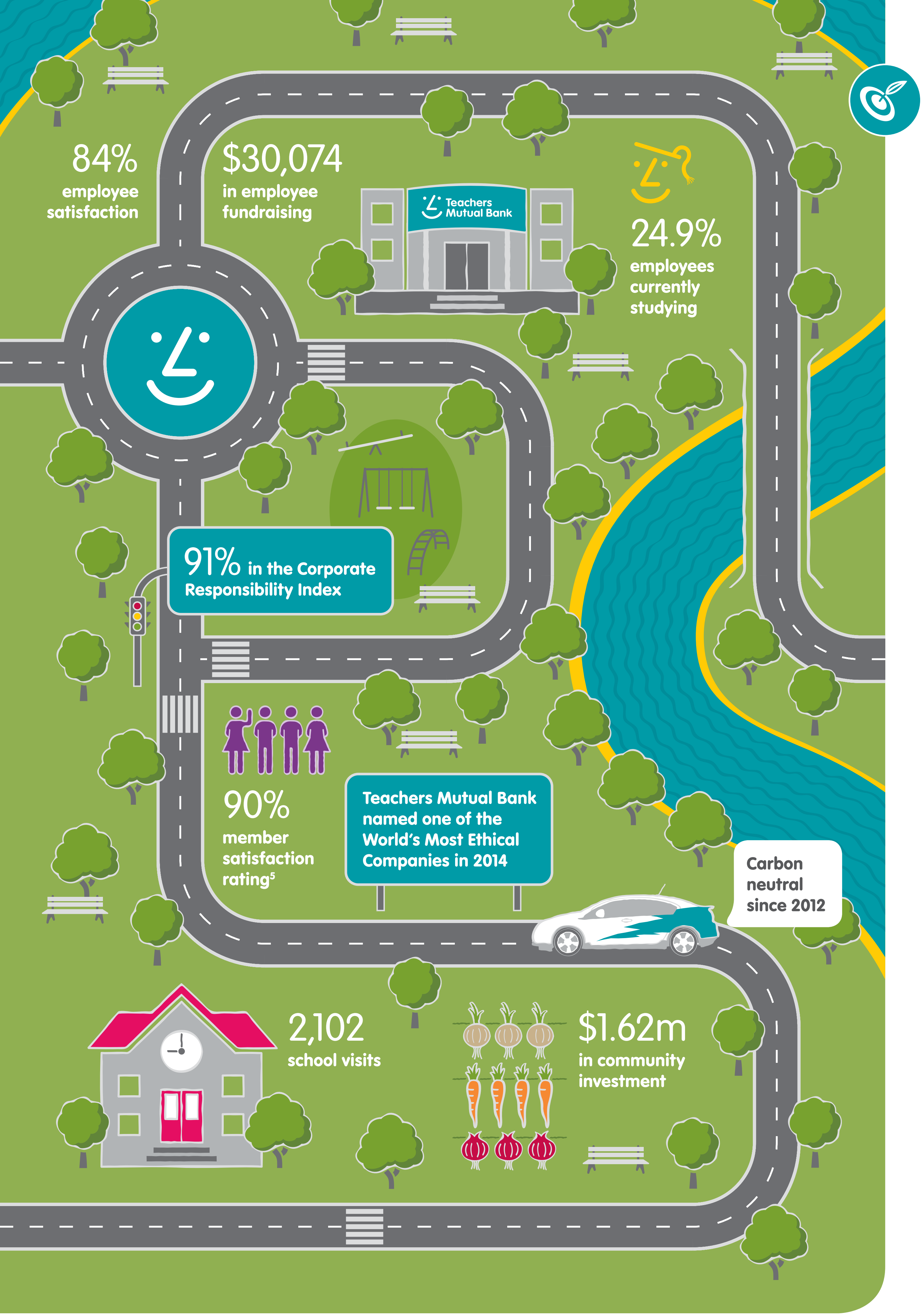
Funding eco-projects in schools

This year the Teachers Environment Fund provided $56,783 to help schools bring their sustainable projects to life. The fund provided grants to 36 schools, benefiting 18,819 students and 1,807 teachers across the country.

We funded a diverse number of projects including a vegetable garden to help refugee students to develop their literacy skills, an Aboriginal bush tucker program, a frog pond marsh habitat, an aquaponics system, free-range chicken coops, and an upcycled native wildlife garden.

Sustainable forests

We are committed to minimising our paper consumption, but when printing is necessary we ensure that the paper is obtained in a sustainable manner. Of our total paper use, 99% is from a certified sustainable source and 81% is certified carbon neutral. Fifty-five percent of members now choose a digital copy of our newsletter *Chalkboard*.


84%
employee satisfaction
$30,074
in employee fundraising
Teachers Mutual Bank
24.9%
employees currently studying
91% in the Corporate Responsibility Index
90%
member satisfaction rating[5]
Teachers Mutual Bank named one of the World's Most Ethical Companies in 2014
Carbon neutral since 2012
2,102
school visits
$1.62m
in community investment

Sustainability key performance indicators and targets

Sustainability is a core business value, and to ensure that it is embedded across the business, we report our performance against 96 targets and key performance indicators (KPIs). We continue to strive to live up to being an ethical and sustainable business.

Key Performance Indicators

Overall	2011-12	2012-13	2013-14
Corporate Responsibility Index (CR Index) overall score	Bronze, 79%	Gold, 90%	91%
Members			
Member satisfaction rating[5]	89%	90%	90%
CANSTAR Member Valuation – against the four major banks	$288.86	$314.18	N/A
Mobile offices and mobile business centres established	62	47	59
Home loan and investment seminars held	37	35	17
Formal complaints received by external bodies	14	15	9
Members assisted through the Credit Assistance service	140 members	108 members	165 members
Community			
Total community investment Percentage of net profits before tax (NPBT)	$755,600	$1,349,000 4.2%	$1,620,000# 4.1%
School visits	1490	1712	2,102
Conferences supported	115	110	153
Employee fundraising	$17,623	$17,711	$30,074
Environment			
Paper recycled	44 tonnes	33.4 tonnes	22.2 tonnes
Waste generated Per full-time employee (FTE)	68 tonnes 171 kg	61.9 tonnes 155 kg	67.8 tonnes 157 kg
Greenhouse gas emissions	2,150 tonnes	1,759 tonnes	0^
Toner cartridges recycled	320 kg	168 kg	217 kg
Water consumed per FTE	13,732 litres	17,881 litres	13,585 litres
Employees			
Percentage of females in management	37.5%	33.3%*	31%
Employee satisfaction	86%	88%	84%
Staff engagement rating	85%	88%	84%
Employee turnover rate	10.56%	7.16%	8.23%
Employees currently studying	22%	24.28%	24.89%
Study leave days granted	238	231.5	209
Worker compensation claims	13	7	7
Staff satisfaction with workplace health & safety (WH&S)	91%	96%	92%
Average lost time incident rate (in days)	9.7	12.2	16.99

#Community investment data is independently measured by the London Benchmarking Group (LBG). The LBG reporting cycle is completed each November, so this figure was published in November 2013. ^Teachers Mutual Bank is carbon neutral for Scope 1 and 2 Emissions – Fuel, gas and electricity use.
*Corrected from 44% figure last year, which was for the Board.

Results on our targets: Sustainable business practices

Targets	Results
1. Maintain a Gold rating in the 2014 CR Index.	The rating system changed to stars, and we received a 3-star rating. Our 91% CR Index score exceeds the CR Index average of 85%. The CR Index average dropped from 90% to 85% this year, reflecting the tougher criteria. • 93% of our main category scores exceed the CR Index average (14 out of 15 categories). • 87% of our main category scores exceeded the CR Index finance sector average (13 out of 15). • We received a perfect score in two-thirds of our answers (48 out of 70). • We excelled in Community Investment (100%), Workplace Management (97%), Employee Development (97%), and our Teachers Environment Fund (100%).
2. Achieve >90% and above the sector average in the Workplace section of the CR Index.	Our Workplace Management score increased from 92% in 2013 to 97% in 2014. This is higher than the CR Index average (91%) and the finance sector average (93%). In 4 out of 5 of the workplace questions we received a perfect score of 100%.
3. Benchmark and report our community investment using the London Benchmarking Group (LBG) methodology.	The LBG is the internationally recognised standard for measuring and evaluating a corporation's community investment. We are a global leader for the second year running. Our $1.62 million community investment equates to 4.1% of our pre-tax profits. This is 7 times the LBG Australia & New Zealand (A&NZ) average, 12 times the A&NZ finance services sector average and 2.4 times the global LBG average. Our contribution per employee ($3,994) is 6 times the global average, 9.5 times the A&NZ average and 9.5 times the A&NZ finance sector average.
4. All staff, Grade 6 and above, have sustainability KPIs in their performance plans.	100% of managers and Grade 6 employees have sustainability KPIs in their performance assessments.
5. Review and improve sustainability training and education available to employees.	100% of staff have received some form of education on sustainability, particularly via the staff intranet and training system. Sustainability training is being reviewed.
6. Assign Board responsibilities for sustainability.	Steve James, Chief Executive, represents sustainability issues on the Board. Sustainability is included in monthly Board Reports.
7. Launch a revised Sustainability Policy and review annually.	Our Sustainability Policy was published in October 2012 and updated in 2013. It has 70 itemised points and references 28 supporting policies.
8. Sustainability embedded into business policies, practices and decision making.	Our main KPI in the Strategic Business Plan is "Sustainability is integrated throughout the business and embedded in policies, procedure and practices".
9. Undertake a stakeholder mapping exercise and implement a revised stakeholder engagement plan.	Teachers Mutual Bank employed an Education Community Consultant in May 2014 to prepare a stakeholder inventory, undertake a mapping and salience exercise and complete a revised Stakeholder Engagement Plan for Teachers Mutual Bank.
10. Establish mechanisms for two-way sustainability dialogue with stakeholders.	We have multiple avenues for engagement including: an annual member survey; a new compliments and complaints process; focus groups held where applicable; a school contact survey; and a school visitation program with feedback loops. Teachers Mutual Bank employed an Education Community Consultant in May 2014 to help connect the CEO and Executive with key stakeholders and to improve strategic and long term relationships with education stakeholders nationally.
11. Survey key suppliers on how they incorporate CSR issues into their products, services and management practices. 12. Increase the purchase of more sustainable products and services and develop a sustainable print and paper policy. 13. Introduce sustainability criteria into specific requests for proposals and contracts. 14. Actively research and trial more sustainable products with third-party verification e.g. Forest Stewardship Council (FSC), Fairtrade Certified.	We continue to engage key suppliers on their sustainability credentials, focusing on energy, waste, water and office supply chains. We made significant investments in our Holden Volt Electric car, and our commitment to go carbon neutral. More details are in the Environment section of this Report.
15. Maintain a zero tolerance culture for corruption and fraud.	We practise effective operational risk management and maintain a culture of awareness.


91%
score in the prestigious annual Corporate Responsibility Index[2]
Mary-Anne, member since 2003

Results on our targets: Members

Targets	Results
1. Achieve member satisfaction ratings at or above 90%.	In the 2013 Member Satisfaction Survey conducted by GALKAL,[5] 90% of members were "quite satisfied" or "very satisfied" with the overall service they receive from Teachers Mutual Bank.
2. Improve CANSTAR Member Valuation.	We outperformed the four major banks – with member value of $49,383,421 generated on an annual equivalent basis. This equates to $314 value generated per member on an annual equivalent basis. This result highlights Teachers Mutual Bank's competitive positioning relative to the four major banks.[†] This result is for FY2013. Member valuation is currently being prepared for 2013/2014.
3. Improve member retention rates.	Attrition rates reduced by 22.9%.
4. Reduce number of complaints received by external bodies each year.	The number of formal complaints received by external bodies was 9, down from 15 in 2013. This is the number of disputes lodged by our members via the Financial Ombudsman Service.
5. All complaints responded to within 1 business day.	We successfully responded to 99% of complaints (1,515) within 1 business day. 124 complaints were later withdrawn.
6. Achieve best practice for all complaints resolved within 14 days.	1,428 complaints (94.3%) completed within 14 days or less. 1,488 complaints (98.2%) completed within 21 days or less. Industry best practice is to respond within 21 days.
7. 100% of front-line staff trained in complaints handling.	100% of front-line staff have been assigned and completed their online training modules in complaints handling.
8. Zero breaches of the Privacy Act 1988 (Cth).	There were 6 breaches.
9. Host external events for members.	We held 76 events.
10. Visit members' workplaces.	We visited 2,102 schools.
11. >90% of members to feel that they have adequate access to banking services.	As measured in the 2013 Member Satisfaction survey conducted by GALKAL,[5] 93% rated their access to any of the Teachers Mutual Bank services as "quite accessible" or "very accessible".
12. >90% of members to feel that they have adequate access to information and assistance.	As measured in the 2013 Member Satisfaction survey conducted by GALKAL,[5] 90% "somewhat agreed" or "strongly agreed" that they had adequate access to information and assistance on any of the Teachers Mutual Bank services.
13. 100% of marketing campaigns complying with responsible marketing guidelines.	All marketing campaigns are developed in line with Teachers Mutual Bank's rules of responsible marketing and the relevant industry codes and regulations.
14. Zero breaches of responsible marketing guidelines.	There was one breach relating to false and misleading advertising, which occurred through a third party site, and was corrected immediately it was discovered.
15. Assist members in financial difficulty.	165 members were assisted through our Financial Assistance Programme.

[†] The CANSTAR Member Valuation is a measurement of the return provided on the investment that the member's share represents. The study was commissioned by Teachers Mutual Bank. CANSTAR is an independent financial services research group – www.canstar.com.au

Results on our targets: Community

Targets	Results
1. Maintain our minimum commitment of 3% of net profits after tax (NPAT) invested in sustainability initiatives.	Our community investment as measured by LBG increased from $1.35 million to $1.62 million, largely due to improved measurement. This equates to 4.1% of NPBT and 5.8% of NPAT. Our total measured investment in the community includes cash, time and in-kind donations, as well as management costs.
2. Provide financial support for the education community via sponsorship and donations. 3. Prioritise collaboration with the various Departments of Education in NSW, ACT, WA and NT. 4. Foster effective relationships with the education community. 5. Enhance the professional development of teachers via the support of teacher conferences and events.	Our community investment as measured by the LBG is $1.62 million. Our support for the education community is in partnership with the Departments of Education and Communities. We are actively involved in programs offered by The Arts Unit (such as the School Spectacular), the Sports Unit and Teach NSW, which supports student teachers. In Western Australia we are proud to support the WA Education Awards. In conjunction with the Public Education Foundation, we introduced the Teachers Mutual Bank Harvard Club of Australia Scholarship, which provided Merrylands East Public School Principal, John Goh, the opportunity to undertake a leadership course at Harvard Graduate School of Education in the US. Professional development is a major focus of our investment. We support conferences and events which are an integral part of extending and improving school curriculums by assisting in improving skills and training for principals, deputy principals, teachers and school administration and support employees. We supported 153 professional conferences and events, reaching an estimated 15,000 teachers and educators.
6. Continue to be a leading corporate sponsor of Stewart House.	We continue to provide financial support to Stewart House and are proud to be acknowledged as a Platinum Partner.
7. Assist poverty alleviation in the Asia-Pacific via Platinum Sponsorship of CUFA.	We are a Platinum Sponsor of CUFA and we are committed to a 3-year funding of the Myanmar Teachers Project, in partnership with QTMB and VTMB. The CUFA project offers a sustainable funding model designed to help break the poverty cycle in Myanmar. We provide 75% of the 3-year $240,000 project funding over three years. The partnership funding model provides loan capital for 20 community credit unions that are run out of monasteries. This loan pool is set to benefit 9,000 members – providing capital for loans so that members can build a house or a business and afford health care. The extra returns generated are then used to help pay teachers' salaries. The project is targeted to benefit 22 schools, 157 teachers and 5,495 school children. Typhoon Haiyan caused severe devastation in the Philippines. We donated $25,000 to the relief fund set up by CUFA on behalf of the mutual industry.
8. Improve our support for indigenous education initiatives.	We increased our focus on indigenous community applications through our Teachers Environment Fund grants.
9. Provide Teachers Environment Fund grants for sustainability in schools.	In the last 12 months we have given $56,783 to 36 schools comprising 18,819 students and 1,807 teachers. Since launching in March 2008 we have provided $370,000 in grants to 141 schools. On average the grants have assisted schools comprising a total 7,400 teachers and 87,000 students.
10. Financially assist student teachers with Future Teachers Scholarships.	We gave $35,000 in grants to seven students in March 2014, and provided $250 each to 10 runners up. Winners submitted an essay on the topic "Teaching, why is it more than a job?".
11. Fund the NSW Premier's Teachers Mutual Bank New and Emerging Technologies Scholarship	Brendan Maher, Principal of Coolah Central School, was awarded a $15,000 scholarship to fund a study called 'Fostering student success through development of connected learning communities' that draws upon knowledge from the best in Australia and New Zealand.
12. Support employee-driven charity programmes.	All staff have access to the Workplace Giving Program and are encouraged to participate in charity days run by the Charity Day Committee, which run four charity days each year.

100%

of paper statements delivered by Computershare are certified Carbon Neutral and PEFC

Peter, member since 2014

Results on our targets: Environment

Targets	Results
1. Improve data collection processes for energy, waste, water, paper and supply chain.	We now have centralised data for all our waste, office supply chain and paper and print operations which allows us to undertake better analysis. We have undertaken two greenhouse gas (GHG) accountancy processes: • A GHG emissions inventory that creates a financial accounting system for organisational GHG emissions under our operational control in 2013; and • An assurance audit that provides an independent, expert assessment and verification of our inventory, and verification of our claims of carbon neutrality.
2. Engage and train employees on sustainable office practices.	We have a centralised procurement system for our office and marketing supplies, and staff are allocated to the system.
3. Buy a minimum of 10% renewable electricity for owned-buildings.	We moved to a commitment to be 100% carbon neutral. Teachers Mutual Bank is a carbon neutral bank, and all members' accounts are therefore carbon neutral. We have offset all our GHG emissions (Scope 1 and 2, electricity and fuel use) for FY2013 and 2014. To do this, we purchased two years' worth (4,590 tonnes) of carbon offsets, or carbon credits, from Climate Friendly. Teachers Mutual Bank has been a carbon neutral bank since 1 July 2012.
4. 5% reduction in HQ energy/GHG emissions to 2013, and 10% by 2015.	We offset two years' worth (4,590 tonnes) of carbon offsets, calculated based on our 2013 GHG emissions inventory. As a result we have zero emissions from our GHG emissions (Scope 1 and 2, electricity and fuel use) for FY2013 and 2014. Our FY2013 GHG emissions were 2,295 tonnes – 77% (1,759 tonnes) of our emissions were from electricity and 23% (536) tonnes) were from our motor vehicles. Prior to 2013, we only measured GHG emissions from electricity and our total emissions increased by 6.7% as a result of including vehicles. Our GHG emissions from electricity reduced by 14% from 2011 to 2012 and by 18% from 2012 to 2013. That is a 30% reduction in the two years prior to 2013.
5. Implement new staff engagement programmes to save energy.	We have not made major progress, as our focus has been on other environmental issues. We are waiting for data from the improved air conditioning upgrade, which took longer than expected, to give us guidance on next steps.
6. All new cars purchased for our fleet to achieve at least a 3.5 star rating in the Green Vehicle Guide.	We reduced this target to a 3 star rating, and have included all fuel emissions from our car fleet in our carbon neutral certification.
7. Introduce new technology and processes to reduce paper wastage and improve efficiency.	We operate a centralised system for paper and print production via our suppliers, Staples and Finsbury Green, and our recycling company, Remondis.
8. Implement revised sustainable print and paper policy. 9. Increase the number of members receiving online statements/newsletters.	We have a comprehensive policy in our contracts. For our total paper use, 99% is from a certified sustainable source, 69% is FSC Certified and 30% is PEFC Certified. 81% of total paper use is certified Carbon Neutral. • Paper use by marketing print and production reduced by 42% from the previous year • 99% of our office use paper is certified carbon neutral and PEFC Certified • 100% of paper statements delivered by Computershare are certified carbon neutral and PEFC Certified • Of the paper supply that Teachers Mutual Bank directly controls, 85% is FSC certified and 77% is carbon neutral The proportion of our Chalkboard members' newsletter sent electronically increased to 55% from 40% the previous year. 40% of our Edvest Newsletters are sent electronically.
10. 25% reduction in head office water use by 2013.	Water consumption per FTE has dropped 24% to 13,585 litres from 2013, and remains the same as in 2012. FTE numbers, and the size of the business has increased over this time. The recycled paper (22,150kg) taken by our supplier, Remondis, has avoided the use of 703,927 litres of water, the equivalent of 12% of our total water consumption – or the equivalent of water consumption for 51 employees.
11. Reduce total waste to landfill on 2011.	Total waste generated has dropped marginally from 70 tonnes per year in 2011 to 67.8 tonnes per year in 2014.
12. Improve our recycling programme for printers, toners, IT, e-waste, phones, paper and cardboard.	We introduced an office-wide recycling for six waste streams, and will review the first 12 months of data. For the first time we recycled 7,315 kg of e-waste (including 376 hard drives) and recycled 9,590 kg of co-mingled waste.

Results on our targets: Employees

Targets	Results
1. Maintain employee satisfaction rating at or above 85%.	In 2013, Teachers Mutual Bank achieved an employee satisfaction rating of 84%.
2. Maintain employee engagement at or above 80%.	In 2013, Teachers Mutual Bank achieved an employee engagement rating of 84%.
3. Achieve employee engagement rating above global average for financial services industry.	The current global average for the financial services sector sits between 50%-70% with the global average for all industries at 79%. Teachers Mutual Bank is currently at 84%.
4. Minimum 85% of employees recommending Teachers Mutual Bank as a good place to work.	87% of staff have indicated that they would recommend Teachers Mutual Bank as a place to work through the annual staff survey and exit interview data received.
5. Maintain staff turnover at least 10% below industry average.	Total staff turnover was 8.23%. The current industry average for financial services is 12.99%.
6. Minimum 20% of staff engaged in studying.	The average percentage of staff studying was 24.89%. There were also 209 study leave days granted.
7. All employees to complete annual performance reviews.	100% of applicable staff completed an annual performance review.
8. All employees to complete annual development plans.	100% of applicable staff completed an annual development plan.
9. Continue to develop and implement policies and procedures that reflect best practice in employee relations.	We continue to implement policies and programs that reflect best practice and most recently launched a comprehensive Mature Age Worker Program.
10. Zero tolerance to discrimination, harassment and bullying.	We continue to maintain a culture that is free from harassment and workplace bullying through a comprehensive education program and zero tolerance policy.
11. Exceed the ASX 200 average of the percentage of women on Boards.	44% of our board members are women. This compares to an average of 18.2% of women on ASX 200 boards. 28% of our Executive Team are women and 31% of Management are women compared with 33.8% of Equal Opportunity for Women reporting organisations.
12. Be recognised as an employer of choice for women by the Workplace Gender Equality Agency (WGEA).	We are compliant with the Workplace Gender Equality Act and are eligible to apply for WGEA employer of choice status once again in 2014.
13. Continue to develop and implement diversity, discrimination and flexible working guidelines for recruitment, training and promotion.	A Mature Age Worker Program was introduced during the year that provides support and assistance to employees during their late career years and transition to retirement including opportunities to request flexible working arrangements.
14. Reduce the lost time incident rate (LTIR) (in days).	Our LTIR is 16.99 days compared to 12.20 days in the previous financial year. This is reflective of two incidents that resulted in lengthy recovery periods both of which have been resolved through our WH&S rehabilitation program.
15. Maintain staff satisfaction with workplace health and safety (WH&S) at or above 85%.	Staff satisfaction with WH&S was 92%.
16. Make health, safety and wellbeing an integral part of each employee's role.	WH&S is an integral part of each employee's responsibilities at work. WH&S training and education is mandatory for all staff, contractors and visitors to our organisation.

Things you should know
This Annual Report was informed by the issues most important to our operations and key stakeholders. These issues were determined through a review of our employees, a survey of our members and other stakeholders and a review of our business risks and opportunities over the reporting period. A copy of this Annual Report is available at *tmbank.com.au/reports.* **1.** The World's Most Ethical Companies, awarded by the Ethisphere Institute, recognises companies that not only promote ethical business standards and practices internally, but also exceed legal compliance minimums and shape future industry standards by introducing best practices today. **2.** The Business in the Community CR Index is one of the world's leading voluntary benchmarks of corporate responsibility. For over a decade, the CR Index has inspired and challenged over 360 companies to continuously improve their impact on society and the environment. **3.** The London Benchmarking Group (LBG) is the internationally recognised standard for measuring and evaluating a corporation's community investment. **4.** Each year, in support of UNEP World Environment Day (5 June), the United Nations Association of Australia (UNAA) recognises innovative and outstanding environmental programs and initiatives from across Australia and the important work of Australian environmental leaders through its World Environment Day Awards. **5.** GALKAL (Galileo Kaleidoscope) is an independent Australian strategy and research company with over 15 years' experience. **6.** *Money*, Australia's leading personal finance magazine, works with leading independent financial research group Canstar, to judge the awards. **7.** Staff engagement and satisfaction scores were taken from Teachers Mutual Bank's annual staff survey results, which were conducted externally by Quantum Management Consultants. **8.** Roy Morgan Research customer satisfaction ratings are collected from Roy Morgan's Single Source survey of approximately 50,000 Australians annually – the world's largest ongoing single source survey.

84%

staff satisfaction and staff engagement scores in 2014[7]

Ann-Maree, 2014 Future Teacher Scholarship recipient

Directors' report

The Board of Directors has responsibility for the overall management and strategic direction of Teachers Mutual Bank. All Board members are independent, non-executive directors and the majority are elected by members (our shareholders) on rotation every three years. We have three Board-appointed Directors.

The Directors must satisfy the Fit and Proper criteria set down by APRA, and they must abide by our Code of Conduct which outlines their legal and ethical obligations. The Directors are committed to ongoing training to maintain knowledge of emerging issues and to satisfy all governance requirements. The Board conducts an annual review of its performance, along with reviews for individual directors, committees and the executive.

Meet our Directors

John Kouimanos (Chairperson)
BA, Dip Ed

John Kouimanos commenced teaching in 1967 and retired as Head Teacher Social Sciences at Greystanes High School in February 2004. He was a member of the Supervisory Committee from 1972 for six months and has served as a Director since 1974. Mr Kouimanos is Chair of the Board Remuneration Committee and a member of the Large Exposures Committee.

Linda Green (Deputy Chairperson)
Dip Teach, B Ed (Primary Education), GAICD

Linda Green commenced teaching in 1979 and is currently Principal of Robert Townson Public School. She served as a member of the Supervisory Committee for two years and was elected to the Board in 1997 and as Deputy Chairperson in 2009. Mrs Green is Chairperson of the Marketing and Member Relations Strategy Committee, a member of the Development and Education Committee, Board Nominations Committee and Board Remuneration Committee.

Tyrone Carlin (Director) B Com, LLB (Hons), M Com (Hons), LLM, PhD, Grad Dip Fin SIA, CA, FCPA, F Fin, MAICD, MFP

Tyrone Carlin is Professor of Financial Regulation and Reporting and Pro Vice Chancellor (Education Operations) of the University of Sydney. He has held a variety of prior senior academic appointments including Acting Dean of the University of Sydney Business School, Dean of Law at Macquarie University and Director of Academic Programs at Macquarie Graduate School of Management. Professor Carlin teaches in the areas of financial reporting and management, corporate acquisitions and reconstructions and corporate and commercial law, and has published more than 100 scholarly articles in his areas of expertise. He has been engaged as a consultant by a substantial number of leading corporate, professional services and government organisations. He is a director of CPA Australia and Chair of Sydney Talent Ltd. Professor Carlin is a member of the Audit, Risk and Compliance, Marketing and Member Relations Strategy, and Large Exposures Committees.

Michelene Collopy (Director) B.Ec, CA (FPS), FAICD

Michelene Collopy has over 20 years experience in financial markets and has held senior roles in compliance, funds management, treasury and financial reporting. Michelene is currently Chair of Perpetual Superannuation Limited, Council Member of the University of Technology, Sydney and is on the Compliance Committee of Antares Investment Ltd (a NabCapital subsidiary). Ms Collopy is a qualified chartered accountant and financial planning specialist, a registered company auditor, licensed operator on the Australian Stock Exchange, and a Justice of the Peace. She is Chair of the Audit, Risk and Compliance Committee and a member of the Board Remuneration Committee.

Jennifer Leete (Director) BA, Dip. EdP, GAICD

Jennifer Leete commenced teaching in 1977. Her last teaching position was as Head Teacher Social Sciences at Narrabeen High School. She is a Life Member of both the NSW Teachers Federation and the Australian Education Union. Ms Leete was elected as a Director in October 2005. She is Chairperson of the Development and Education Committee, and is a member of the Marketing and Member Relations Strategy Committee.

Graeme Lockwood (Director) Dip. Teach, Grad Dip C. Ed, GAICD

Graeme Lockwood commenced teaching in 1974 and retired as Head Teacher (Administration) at Normanhurst Boys High School in 2012. He served on the Supervisory Committee and Members Committee for many years and was elected to the Board in 2004. He is a member of the Board Nominations Committee and the Development and Education Committee. He is also Chairman of QT Travel Pty Ltd (trading as Diploma Travel).

Connuil McEvedy (Director) MBT, Grad Dip Corporate Governance, Grad Dip Science (Security), Grad Cert Engineering (Risk), Chartered Company Secretary, JP

Connuil McEvedy has over twenty years' experience in governance, risk management and compliance and currently is the Chief Risk Officer for Magellan Financial Group accountable for the risk management, compliance, governance, legal and secretariat functions that support the Group as well as its clients and investors. Previously he was the global deputy of risk and compliance for direct assets at Colonial First State Global Asset Management, the consolidated asset management division of the Commonwealth Bank of Australia group.

Mr McEvedy has worked for state and federal public-sector agencies as well as listed and unlisted private-sector organisations across Australia and around the world in financial services, law, information technology, gaming and telecommunications. He is also a Certified Compliance Professional and a Certified Business Continuity Professional. He is the Deputy Chair of the Audit, Risk & Compliance Committee, a member of the Large Exposures Committee and Chair of the Reporting Committee.

Maree O'Halloran AM (Director) AM, BA/Dip Ed, LLM, Dip Legal Practice, GAICD

Maree O'Halloran is currently Director (CEO) of the Welfare Rights Centre, where she also practises as a solicitor. The Welfare Rights Centre provides free legal services to some of the most disadvantaged people in the community. Ms O'Halloran has also worked as a teacher in public schools, TAFE and Corrective Services. She has been an active voice for the teaching community, having served in numerous positions, including president of the NSW Teachers Federation. She is currently a member of the NSW Public Service Commission Advisory Board and has served as a director of Teachers Federation Health and the SAS Trustee Corporation. She is a member of the Audit, Risk and Compliance Committee and the Marketing and Member Relations Strategy Committee.

Ms O'Halloran was awarded the Member of the Order of Australia (AM) in the 2011 Australia Day Honours List, in recognition of her service to industrial relations and the education sector.

Michael O'Neill (Director) B.Ec, B.Ed, Grad Dip Acct, FFTA, GAICD

Michael O'Neill is an experienced senior executive and director with over 25 years' experience in financial services. Michael has a strong background in finance, risk and governance, having held roles as Chief Financial Officer and Chief Risk Officer for NAB's Personal Banking Division in Australia and Treasurer for the NAB Group. Michael also has a background in risk management consulting and auditing with KPMG. Michael holds a number of non-executive positions including Chairman of Gymnastics Victoria and Board Director of The Royal Women's Hospital in Melbourne. He is the Chair of the Large Exposures Committee and a member of the Audit, Risk and Compliance Committee.

Company secretaries

The names of the Company Secretaries in office at the end of the year are:

Steve James (Chief Executive Officer)

Master of Business Administration (UWS), Diploma in Company Directors Course (AICD), Advanced Accounting Certificate (TAFE).

Steve James is the Chief Executive Officer of Teachers Mutual Bank. Having worked in a diverse range of management roles at Teachers Mutual Bank over the last thirty years, Steve has played a significant role in its growth and success. He became Chief Executive Officer in 2005. Steve has been an active participant in both the national and global mutual banking movement, including participating in many national credit union committees, developing his understanding and appreciation of the environment of mutual banking organisations. He is committed to ensuring that Teachers Mutual Bank maintains its high level of member service, employee satisfaction, and financial performance.

Brad Hedgman (Deputy Chief Executive)

Master of Business (UTS), Graduate Certificate in Business and Technology (UNSW), Diploma in Company Directors Course (AICD). Fellow of Finsia and MAICD.

Brad Hedgman joined Teachers Mutual Bank in 1982 and has worked in various management positions since that time. While working primarily in the areas of finance, information technology, administration and risk, he has played an integral part in the mutual bank's strength and success. In his current role he remains committed to the unique environment of mutual banks and the provision of responsible financial services to our members.

Directors' board meetings

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

(A) Number of meetings attended
(B) Number of meetings entitled to attend.

A leave of absence was granted where Directors were unable to attend Board of Directors meetings.

	Board of Directors meetings	
	A	B
Total Meetings		**17**
John Kouimanos	16	17
Linda Green	17	17
Tyrone Carlin	17	17
Michelene Collopy	16	17
Jennifer Leete	16	17
Graeme Lockwood	16	17
Connuil McEvedy	16	17
Maree O'Halloran	16	17
Michael O'Neill	16	17

Committees of Directors' meetings

The number of meetings held for the committees of Directors during the year and the number of meetings attended by each Director was as follows:

	Audit, Risk and Compliance		Board Remuneration		Board Reporting		Development and Education		Large Exposures		Marketing and Member Relations Strategy		Nominations	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Total meetings		**4**		**2**		**3**		**4**		**2**		**4**		**1**
John Kouimanos			2	2					2	2				
Linda Green			2	2			4	4			4	4	1	1
Tyrone Carlin	3	4							1	2	3	4		
Michelene Collopy	4	4	2	2	3	3								
Jennifer Leete							4	4			4	4	1	1
Graeme Lockwood	3	3					3	4					0	0
Connuil McEvedy	4	4			3	3			1*	2				
Maree O'Halloran	2	2									3	4		
Michael O'Neill	4	4							2	2				

(A) Number of meetings attended. **(B)** Number of meetings entitled to attend. *****Director McEvedy did not receive notification of the meeting held 28 April 2014.
A leave of absence was granted where Directors were unable to attend any of the above meetings.

Directors' benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 30 of the financial report.

Indemnifying officers or auditors

Insurance premiums have been paid to insure each of the Directors and officers of the bank, against costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the bank. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the bank.

Financial performance disclosures

Principal activities

The principal activities of the bank during the year were the provision of retail financial services in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

Operating results

The net profit of the bank for the year after providing for income tax was $25.8 million (2013 $28.1 million).

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the bank.

Review of operations

The results of the bank's operations from its activities of providing financial services did not change significantly from those of the previous year.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the bank during the year.

Events occurring after balance date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the bank in subsequent financial years.

Likely developments and results

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

(i) The operations of the bank

(ii) The results of those operations; or

(iii) The state of affairs of the bank

in the financial years subsequent to this financial year.

Auditors' independence

The auditors have provided the declaration of independence to the Board of Directors as prescribed by the Corporations Act 2001 as set out below.

Rounding

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Class Order 98/100 (as amended by 06/51). The bank is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures which are shown in whole dollars.

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

Signed on behalf of the Board of Directors by:

John Kouimanos,
Chairman

Connuil McEvedy,
Deputy Chairperson of Audit, Risk and Compliance Committee

Signed and dated this 25th August 2014

Directors' declaration

The Directors of Teachers Mutual Bank Limited declare that:

The financial statements comprising the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows and accompanying notes, are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the financial position of the bank as at 30th June 2014 and performance for the year ended on that date.

The bank has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

In the Board of Directors opinion, there are reasonable grounds to believe that the bank will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Signed on behalf of the Board of Directors by:

John Kouimanos,
Chairman

Signed and dated this 25th August 2014

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Independent Auditor's Report
To the Members of Teachers Mutual Bank Ltd

We have audited the accompanying financial report of Teachers Mutual Bank Ltd (the "Company"), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement 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 .

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. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 control relevant to the Company's preparation of the financial report that gives a true and fair view 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 Company's internal control. 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.

Auditor's opinion
In our opinion:

a the financial report of Teachers Mutual Bank Ltd is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the Company's financial position as at 30 June 2014 and of its 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 the notes to the financial statements.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Neville Sinclair
Partner - Audit & Assurance

Sydney, 25 August 2014

Grant Thornton

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Auditor's Independence Declaration
To the Directors of Teachers Mutual Bank Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Teachers Mutual Bank Ltd for the year ended 30 June 2014, I declare that, 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.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Neville Sinclair
Partner - Audit & Assurance

Sydney, 25 August 2014

Financial statements

Notes to the financial statements

Statement of comprehensive income

For the year ended 30 June 2014	Note(s)	2014 $'000	2013 $'000
Interest revenue	2a	221,515	233,186
Interest expenses	2c	(116,081)	(133,964)
Net interest income		105,434	99,222
Fee, commission and other income	2b	21,067	20,719
Total revenue		126,501	119,941
Non-interest expenses			
Impairment losses on loans and advances	2d	(2,751)	(2,226)
General administration	2e		
Employees compensation and benefits		(46,869)	(41,875)
Depreciation and amortisation		(5,477)	(4,695)
Transaction expenses		(10,843)	(10,562)
Information technology		(8,224)	(6,841)
Office occupancy		(2,911)	(2,777)
Other administration		(12,668)	(11,315)
Total general administration		(86,992)	(78,065)
Total non-interest expenses		(89,743)	(80,291)
Profit before income tax		36,758	39,650
Income tax expense	3	(10,952)	(11,552)
Profit after income tax		25,806	28,098
Other comprehensive income			
Net movement on cash flow hedge *(will be reclassified subsequently to profit or loss if specific conditions are met)*	20	(2,092)	(50)
Total comprehensive income		23,714	28,048

Statement of changes in member equity

For the year ended 30 June 2014	Capital reserve $'000	General reserve for credit losses $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total members' equity $'000
Balance as at 1st July 2012	468	20,876	(14)	291,896	313,226
Total comprehensive income for the year – as reported	-	-	(50)	28,098	28,048
Sub-total	468	20,876	(64)	319,994	341,274
Transfers to (from) reserves	46	(7,167)	-	7,121	-
Total at 30th June 2013	514	13,709	(64)	327,115	341,274
Balance as at 1st July 2013	514	13,709	(64)	327,115	341,274
Total comprehensive income for the year – as reported	-	-	(2,092)	25,806	23,714
Sub-total	514	13,709	(2,156)	352,921	364,988
Transfers to (from) reserves	39	(19)	-	(20)	-
Total at 30th June 2014	553	13,690	(2,156)	352,901	364,988

Statement of financial position

For the year ended 30 June 2014	Note(s)	2014 $'000	2013 $'000
Assets			
Cash on hand and deposits at call		111,093	45,939
Receivables from financial institutions	4	539,911	634,326
Receivables	6	16,352	13,597
Prepayments		2,109	2,159
Loans and advances to members	7 & 8	3,682,909	3,351,556
Available for sale investments	9	4,383	4,383
Property, plant and equipment	10	26,612	26,849
Taxation assets	11	6,849	5,977
Intangible assets	12	4,254	3,826
Total assets		4,394,472	4,088,612
Liabilities			
Wholesale sector deposits	13	320,930	184,885
Retail deposits	14	3,675,044	3,519,666
Derivative liabilities	5	2,333	71
Creditors accruals and settlement accounts	15	9,448	23,467
Taxation liabilities	16	3,592	3,319
Provisions	17	18,137	15,930
Total liabilities		4,029,484	3,747,338
Net assets		364,988	341,274
Member equity			
Capital reserve account	18	553	514
General reserve for credit losses	19	13,690	13,709
Cash flow hedge reserve	20	(2,156)	(64)
Retained earnings		352,901	327,115
Total members' equity		364,988	341,274

Statement of cash flows

For the year ended 30 June 2014	Note(s)	2014 $'000	2013 $'000
Cash flows from operating activities			
Interest received		222,329	232,781
Fees and commissions		17,567	17,902
Dividends received		805	800
Other non-interest income received		869	490
Interest paid on deposits		(121,096)	(136,957)
Borrowing costs		(57)	(15)
Expenses paid to suppliers and staff		(79,101)	(70,423)
Income tax paid		(11,562)	(11,283)
Net increase in loans and advances to members		(333,095)	(270,590)
Net increase in retail deposits		143,224	160,890
Net cash flows used in operating activities	34b	(160,117)	(76,405)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,883)	(5,809)
Acquisition of intangible assets		(1,781)	(1,523)
Sale of property, plant and equipment		812	123
Increase/(decrease) in deposits with other financial institutions		94,415	(126,845)
Net cash flows from investing activities		89,563	(134,054)
Cash flows from financing activities			
Increase/(decrease) in wholesale sector deposits		135,708	133,211
Net cash flows from (used in) financing activities		135,708	133,211
Cash Held			
Net increase/(decrease) in cash held		65,154	(77,248)
Add opening cash brought forward		45,939	123,187
Closing cash carried forward	34a	111,093	45,939

Notes to the financial statements

1. Statement of accounting policies

This financial report is prepared for Teachers Mutual Bank Limited as a single entity, for the year ended the 30th June 2014. The report was authorised for issue on the 25th August 2014, in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), Interpretations of the Australian Accounting Standards Board, and the Corporations Act 2001. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the International Financial Reporting Standards (IFRS).

a. Basis of measurement

The financial statements have been prepared on an accruals basis and are based on historical costs, which do not take into account changing money values or current values or non-current assets, except for the treatment of Employee Entitlements stated in Note 1n and Leasehold make good costs stated in Note 1o. The accounting policies are consistent with the prior financial year unless otherwise stated.

b. Loans to members

Basis of recognition

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the bank at balance date, less any allowance or provision against debts considered doubtful.

Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts are written off when identified and are recognised as expenses in the statement of comprehensive income.

All loans and advances are reviewed and graded according to the assessed level of credit risk. The classification adopted is described below.

Non-accrual loans are loans and advances, including savings accounts drawn past their approved credit limit, where the recovery of all interest and principal is considered to be reasonably doubtful. Interest charged and not received on this class of loan is not recognised as revenue.

Restructured loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities of comparable risk. Loans, where interest has been stopped or is less than the bank's average cost of funds, are included in non-accrual loans.

Assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Past-due loans are loans where payments of principal and/or interest are at least 30 days in arrears that are not non-accrual loans or restructured loans. Full recovery of both principal and interest is expected.

Interest earned

Variable and fixed rate loans Loan interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month. All home loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.

Fixed interest loans Loan interest is calculated at a fixed rate on the daily balance and is charged in arrears on the last day of each month.

Overdrafts Interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month.

Overdrawn savings Loan interest is calculated on the daily balance outstanding and is charged in arrears on the last day of each month.

Credit cards Loan interest is calculated on the outstanding balance, after any interest free period applicable, that has not been paid for by the due date. Interest is charged in arrears on the last day of the statement period.

Balance offset loans Loan interest is calculated on the same basis as variable rate loans but with the daily balance outstanding reduced by the balance held in the offset savings account for that day.

Green loans Payments received under the Australian Government Green Loans Program were recognised as interest when received.

Loan origination fees

Loan establishment fees are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

Transaction costs

Transaction costs are expenses, which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

Broker commissions

Upfront commissions to brokers are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance and are bought to account as a reduction to income over the expected life of the loan.

Trailing commissions to brokers charged after origination of the loan are recognised as an administration expense.

Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

REPO securitisation trust consolidation

The bank has a securitisation trust to hold mortgage rights that may be provided as collateral should the bank borrow from the Reserve Bank of Australia to meet emergency liquidity requirements. The bank continues to manage the loans and retains all residual benefits and costs of the portfolio. Accordingly,

a. The trust meets the definition of a controlled entity and,

b. As the bank has not transferred all risks and rewards to the trust, the assigned loans are not derecognised in the financial statements of the bank.

The bank presents a single set of financial statements representing the consolidated financial performance and financial position of the bank and the securitisation trust.

c. Loan impairment

Specific provision

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board of Directors to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 8.

The Australian Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

General Reserve for Credit Losses

The General Reserve for Credit Losses is a reserve in respect of credit losses prudently estimated but are not certain to arise over the full life of all the individual facilities comprising the business of the bank.

The methodology to calculate the reserve is a Probability of Default and Loss Given Default approach.

The Board utilises the model described above when exercising experienced credit judgment as well as considering any other internal and external factors to determine the appropriate reserve balance required.

d. Bad debts written off

Loan balances are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are recognised as expenses in the statement of comprehensive income.

e. Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation, less impairment losses.

Property, plant and equipment with the exception of freehold land, are depreciated on a straight line basis to write off the net cost of each asset over its expected useful life to the bank. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- Buildings - 40 years.
- Leasehold improvements - up to 5 years (term of lease).
- Plant and equipment - 2.5 to 7 years.

f. Intangible assets

Items of computer software which are not integral to the computer hardware owned by the bank are classified as intangible assets and amortised over an expected useful life of 2.5 to 4 years.

g. Cash and cash equivalents

Cash comprises cash on hand, demand deposits and restricted access accounts.

Cash equivalents are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Restricted access accounts are limited to our security deposit obligations with Cuscal.

h. Receivables from financial institutions

Term deposits, Negotiable Certificates of Deposit (NCDs) and Floating Rate Notes (FRNs) are unsecured and have a carrying amount equal to their purchase price. Interest is paid on term deposits and NCDs on the daily balance at maturity. Interest is paid on FRNs on the daily balance at each repricing date. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

i. Derivative financial instruments

Interest rate swaps

The bank transacts interest rate swaps to manage interest rate risk. These are initially recognised at fair value at the date of the contract and are subsequently re-measured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the swap is designated as effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Interest rate swaps are designated as hedges of highly probable forecast transactions (cash flow hedges).

Hedge accounting

At the inception of the hedge the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions is documented. Furthermore, at the inception of the hedge and on an ongoing basis, the bank documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Details of the fair value of the derivative instruments used for hedging purposes are provided in Note 26 while movements in the hedging reserves are provided in Note 20.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. Hedge accounting is discontinued when the hedging relationship is revoked, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

j. Equity investments and other securities

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares, which do not have a ready market and are not capable of being reliably valued, are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for amortisation. All investments are in Australian currency.

k. Retail deposits

Basis for determination

Retail savings and term deposits are quoted at the aggregate amount of money owing to depositors.

Interest payable

Savings

Savings account interest is calculated on the daily balance and credited monthly, except where the account is designated as a balance offset to a mortgage loan, in which case interest is calculated as described in Balance offset loans in Note 1b.

Fixed term deposits

Interest on fixed term deposit accounts is calculated on a daily basis at the agreed rate and is paid in accordance with the terms of the deposit. Interest payable is included in the amount of retail deposits in the statement of financial position.

l. Wholesale sector deposits

Basis for determination

Wholesale term deposits and Negotiable Certificates of Deposit (NCDs) are quoted and issued at the aggregate amount of money owing to depositors.

Interest payable

Interest on fixed term deposit accounts is calculated on a daily basis at the agreed rate and is paid in accordance with the terms of the deposit. Interest payable is included in the amount of wholesale sector deposits in the statement of financial position.

m. Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

n. Provision for employee benefits

Provision is made for the bank's liability for employee entitlements arising from service rendered by employees to the end of the reporting period. Employee benefits expected to be settled within 12 months of the end of the reporting period have been measured at their nominal amount. Employee benefits not expected to be settled within 12 months of the end of the reporting period are stated at present value, using expected settlement timings and discount rates equivalent to government guaranteed securities of similar term. Employee benefits consist of sick leave, annual leave and long service leave. Sick Leave is short-term, non-vesting and accumulating.

o. Leasehold on premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted at the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability. Increases in the provision in future years shall be recognised as part of the interest expense.

p. Income tax

The income tax expense shown in the statement of comprehensive income is based on the operating profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity, are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

q. Goods and services tax (GST)

As a financial institution the bank is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred 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 the expense, unless specifically stated otherwise.

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from and payable to the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

r. Business Combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued, the value of the equity instruments is their market value as at the date of exchange unless, in rare circumstances it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The transaction costs of acquiring the business other than for the issue of equity instruments, such as due diligence costs legal and accounting fees, are to be expensed as incurred by the bank as part of operating expenses.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised in equity.

s. Impairment of assets

At each reporting date the bank assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in the statement of comprehensive income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

t. Accounting estimates and judgments

Management has made judgments when applying the bank's accounting policies with respect to the classification of assets as available for sale.

The detail of the critical accounting estimates and assumptions are set out in Note 8 for the impairment provisions for loans.

u. Assets measured at fair value

Assets measured at fair value have been classified into the following hierarchy:

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

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

v. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30th June 2014 reporting periods. The bank's assessment of the impact of these new standards and interpretations is set out below.

New standards

AASB reference	Nature of Change	Application date	Impact on initial application
AASB 10 Consolidated Financial Statements (issued August 2012)	Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present: Power over investee (whether or not power used in practice). Exposure, or rights, to variable returns from investee. Ability to use power over investee to affect the entity's returns from investee.	Annual reporting periods commencing on or after 1 July 2013.	This standard is first adopted for the year ended 30 June 2014. There has been no impact on transactions and balances previously recognised in the financial statements. The bank controls the EdSec Funding Trust. This Trust is a special purpose entity that has been established to enable the bank to issue mortgage backed securities for short term liquidity support. The loans held by the Trust are not derecognised by the bank as they do not satisfy the derecognition criteria in the Accounting Standards. Accordingly, there is no change to the reported balances under consolidation.
AASB 13 Fair Value Measurement (issued September 2012)	Previously, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	Annual reporting periods commencing on or after 1 January 2013.	The revised fair value measurement requirements apply prospectively from 1 July 2013. When this standard was adopted for the first time on 1 July 2013, additional disclosures were required about fair values. The assets impacted relate to the shares in Cuscal and shares in Q.T Travel Pty. Ltd., neither of which are material to the financial statements.
AASB 119 Employee Benefits (reissued September 2012)	Main changes include: Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans. Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in Other Comprehensive Income rather than in profit or loss, and cannot be reclassified in subsequent periods. Subtle amendments to timing for recognition of liabilities for termination benefits. Employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1 January 2013.	The amendments to AASB 119 require that leave liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. This standard has been adopted for the year ended 30 June 2014. There was no material impact on transactions and balances in the financial statements.

Emerging standards

AASB reference	Nature of Change	Application date	Impact on initial application
AASB 9 Financial Instruments (issued December 2009 and amended December 2010)	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to: Classification and measurement of financial liabilities; and Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1st January 2017.	Due to the recent release of these amendments and adoption is only mandatory for the 31st December 2017 year end, the entity has not yet made an assessment of the impact of these amendments.

2. Income statement

a. Interest revenue

Interest revenue	2014 $'000	2013 $'000
Cash - deposits at call	1,791	3,061
Receivables from financial institution deposits	21,055	23,947
Loans and advances to members	198,660	206,092
Derivatives interest income	-	50
Other	9	36
Total interest revenue	221,515	233,186

b. Non-interest revenue

Fee and commission revenue	2014 $'000	2013 $'000
Loan fee income - other than loan origination fees	2,640	2,464
Other fee income	5,316	5,666
Insurance commissions	4,078	4,405
Other commissions	5,538	5,308
Total fee and commission revenue	17,572	17,843

Other income		
Dividends received on available for sale assets	805	800
Bad debts recovered	1,009	1,066
Gain on disposal of assets:		
- Property, plant and equipment	812	123
Transfers from provisions:		
- Impairment losses on loans and advances	-	397
- Annual Leave	23	-
Miscellaneous revenue	846	490
Total non-interest revenue	21,067	20,719

c. Interest expenses

	2014 $'000	2013 $'000
Overdraft	16	13
Short-term borrowing	41	2
NCDs issued	6,319	3,940
Wholesale deposits	-	821
Retail deposits	108,965	129,169
Derivatives interest expense	740	19
Total interest expenses	116,081	133,964

d. Impairment losses

Loans and advances carried at amortised cost	2014 $'000	2013 $'000
Increase in provision for impairment	577	-
Bad debts written off directly against profit	2,174	2,226
Total impairment losses	2,751	2,226

e. Prescribed expense disclosures

Employee costs include	2014 $'000	2013 $'000
Personnel costs	41,369	37,123
Superannuation contributions	3,304	2,968
Net movement in provisions for employee annual leave	-	225
Net movement in provisions for employee long service leave	2,166	1,516
Net movement in provisions for employee sick leave	30	43
Sub-total	46,869	41,875

Depreciation and amortisation expense comprises		
Buildings	605	560
Plant and equipment	2,766	2,695
Leasehold improvements (including lease make good provisions)	68	170
Written down value of assets disposed	685	141
Intangible assets - computer software	1,353	1,129
Sub-total	5,477	4,695

Auditor's remuneration (excluding GST)		
Audit and review of financial statements:		
- Auditors of Teachers Mutual Bank - Grant Thornton	163	149
Other services:		
- Other services	4	2
Sub-total	167	151

Other operating expenses		
Transaction expenses	10,843	10,562
Information technology	8,224	6,841
Office occupancy	2,911	2,777
Net movement on provision for director development	38	4
Member research, marketing, sponsorships and member events	4,051	3,105
Professional fees	1,018	1,099
Other administration	7,394	6,956
Sub-total	34,479	31,344
Total general administration	86,992	78,065

3. Income tax expense

a. The income tax expense comprises amounts set aside as:

	2014 $'000	2013 $'000
Provision for income tax - current year	11,853	12,138
Under (over) provision in prior years	(103)	(160)
Decrease (increase) in the deferred tax asset	(798)	(426)
Income tax expense attributable to profit	10,952	11,552

b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:

	2014 $'000	2013 $'000
Profit	36,758	39,651
Prima facie tax payable on operating profit before income tax at 30%	11,027	11,895
Add: - Tax effect of expenses not deductible		
Other non-deductible expenses	280	65
Less: - Tax effect of income not assessable Other non-assessable income	(18)	(3)
Sub-total	11,289	11,957
Add (less): - Adjustment to recognise deferred tax assets at 30%	805	422
Less: - Franking rebate	(241)	(241)
Current income tax provision attributable to profit	11,853	12,138

c. Franking credits

	2014 $'000	2013 $'000
Franking credits held by the bank after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year	139,387	127,748

4. Receivables from financial institutions

	2014 $'000	2013 $'000
Negotiable certificates of deposit	448,777	611,225
Term deposits	7,000	8,000
Floating rate notes	62,000	-
Other	22,134	15,101
Total receivables from financial institutions	539,911	634,326

5. Derivative financial instruments

The tables below provide the fair values and notional amounts of derivative financial instruments. The notional amount is reported gross at the amount of the 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 value of transactions open at year end and are not indicative of market risk or credit risk. Fair value measurement is classified as Level 2 in the fair value hierarchy with the methodology and basis for valuation explained in Note 1u.

	2014 $'000		2013 $'000	
Derivatives used as cash flow hedges	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	-	2,333	-	71

Net movement on derivatives during the year	2014 $'000	2013 $'000
Recognised in interest income	(170)	(5)
Charged to comprehensive income	(2,092)	(50)
Total	(2,262)	(55)

Notional principal amounts and period of expiry of the interest rate swap contracts	2014 $'000			2013 $'000		
	Pay Fixed	**Receive Fixed**	**Notional Amount**	**Pay Fixed**	**Receive Fixed**	**Notional Amount**
Within 1 year	21,100	62,000	83,100	20,000	-	20,000
>1 to 2 years	48,800	-	48,800	2,000	-	2,000
>2 to 3 years	264,200	-	264,200	-	-	-
Total	334,100	62,000	396,100	22,000	-	22,000

6. Receivables

	2014 $'000	2013 $'000
Interest receivable on deposits with other financial institutions	9,888	10,698
Sundry debtors and settlement accounts	6,464	2,899
Total receivables	16,352	13,597

7. Loans and advances

a. Amount due comprises

	2014 $'000	2013 $'000
Overdrafts and credit cards	99,205	99,600
Term loans	3,586,026	3,254,751
Overdrawn savings	140	122
Sub-total	3,685,371	3,354,473
Less: - Amortised loan origination fees, transaction costs and broker commission	(239)	(1,271)
Sub-total	3,685,132	3,353,202
Less: - Provision for impaired loans as detailed in Note 8	(2,223)	(1,646)
Total loans and advances to members	3,682,909	3,351,556

b. Credit quality - security held against loans

	2014 $'000	2013 $'000
Secured by mortgage over real estate	3,388,968	3,043,913
Partly secured by goods mortgage	42,093	66,569
Wholly unsecured	254,310	243,991
Total	3,685,371	3,354,473

It is not practicable to value all collateral as at the balance date due to the variety of assets and condition.
A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

Security held as mortgage against real estate is on the basis of:		
- Loan to valuation ratio of less than 80%	2,395,683	2,136,639
- Loan to valuation ratio of more than 80% but mortgage insured	802,792	768,186
- Loan to valuation ratio of more than 80% and not mortgage insured	190,493	139,088
Total	3,388,968	3,043,913

c. Concentration of loans

The values discussed below include on-statement of financial position values and off-statement of financial position undrawn facilities as described in Note 27.

i) There are no members who individually or collectively have loans, which represent 10% or more of members' equity.

ii) Details of classes of loans which represent in aggregate 10% or more of members' equity, are set out below.

Balance of loans held by memberships who are receiving payments from:	2014 $'000	2013 $'000
NSW Department of Education and Communities	1,556,058	1,519,705
State Super Financial Services	119,960	100,508
ACT Department of Treasury	79,961	69,616
Catholic Education Office	61,213	46,005
Teachers Mutual Bank employees	44,963	34,227

Number of memberships with loans who are receiving payments from:	2014 Number	2013 Number
NSW Department of Education and Communities	17,457	18,627
State Super Financial Services	3,200	2,860
ACT Department of Treasury	604	623
Catholic Education Office	504	411
Teachers Mutual Bank employees	250	229

During the year the bank has consolidated multiple occurrences of the same individuals. This will affect comparison between 2013 and 2014 data.

iii) Geographical concentrations including loan balances and loan financial commitments in Notes 27a, 27b and 27c.

	2014 $'000				2013 $'000			
	Housing	Personal	Business	Total	Housing	Personal	Business	Total
NSW	3,035,380	808,232	50	3,843,662	2,781,728	776,090	20,512	3,578,330
Victoria	53,654	13,829	-	67,483	29,085	12,215	-	41,300
Queensland	91,571	19,258	-	110,829	63,968	18,302	-	82,270
South Australia	13,520	1,969	-	15,489	4,778	1,852	-	6,630
Western Australia	167,726	30,576	-	198,302	137,365	26,199	-	163,564
Tasmania	7,961	1,563	-	9,524	6,019	1,629	-	7,648
Northern Territory	15,470	4,291	-	19,761	11,507	4,009	-	15,516
ACT	164,152	30,391	-	194,543	142,664	29,743	-	172,407
Other	-	2,686	-	2,686	-	224	-	224
Total	3,549,434	912,795	50	4,462,279	3,177,114	870,263	20,512	4,067,889

d. Loans by purpose

	2014 $'000	2013 $'000
Housing loans and facilities	3,549,434	3,177,113
Personal loans and facilities	912,795	870,263
Total-households	4,462,229	4,047,376
Business loans and facilities	50	20,512
Total	4,462,279	4,067,888

e. Securitised loans

Non derecognised securitised loans	2014 $'000	2013 $'000
EdSec Funding Trust No.1	489,339	361,218

8. Provision on impaired loans

a. Total provision comprises

	2014 $'000	2013 $'000
Collective provision	2,187	1,625
Individual specific provision	36	21
Total provision	2,223	1,646

b. Movement in the provision for impairment

	2014 $'000	2013 $'000
Balance at the beginning of year	1,646	2,044
Add (deduct); - Transfers from (to) statement of comprehensive income	577	(398)
Balance at end of year	2,223	1,646

c. Impaired loans written off

	2014 $'000	2013 $'000
Amounts written off directly to expense	2,174	2,226
Total bad debts	2,174	2,226
Bad debts recovered in the period	1,009	1,066

d. Analysis of loans that are impaired or potentially impaired by class

In the Note below:

- Carrying value is equivalent to that stated in the statement of financial position.
- Value of impaired loans represents 'on-statement of financial position' loan balances and includes non-accrual loans and restructured loans stated in Note 1b.

	2014 $'000			2013 $'000		
Loans to members	**Carrying value**	**Value of impaired loans**	**Provision for impairment**	**Carrying value**	**Value of impaired loans**	**Provision for impairment**
Housing	3,093,104	8,378	34	2,775,598	8,751	34
Personal	493,061	3,053	1,173	458,826	3,000	880
Credit Card	71,076	1,842	862	69,824	1,445	596
RediCredit	28,120	294	154	29,749	246	135
Total-households	3,685,361	13,567	2,223	3,333,997	13,442	1,645
Business	11	1	-	20,476	1	1
Total	3,685,372	13,568	2,223	3,354,473	13,443	1,646

It is not practicable to determine fair value of collateral at balance date due to the variety and condition of assets.

e. Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

	2014 $'000		2013 $'000	
	Carrying value	Provision	Carrying value	Provision
Less than 30 days	3,838	36	1,983	5
30 to less than 90 days in arrears	1,475	-	2,957	4
90 to less than 182 days in arrears	2,776	361	3,826	366
182 to less than 273 days in arrears	1,251	317	1,838	327
273 to less than 365 days in arrears	413	330	907	180
365 days and over in arrears	1,853	224	377	59
Overdrawn savings/overlimit facilities over 14 days	1,962	955	1,555	705
Total	13,568	2,223	13,443	1,646

Impaired loans are generally not secured against residential property. Some impaired loans are secured by mortgage over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of collateral as at balance date due to the variety and condition of assets.

f. Loans with repayments past due but not regarded as impaired

Loans balances of $5.645 million are in arrears by at least 30 days and are not considered to be impaired as full recovery of both principal and interest is expected. It is not practicable to determine fair value of collateral at balance date due to the variety and condition of assets.

Loans with repayments past due but not impaired are in arrears as follows:

	2014 $'000				2013 $'000			
	>1 to 2 months	>2 to 3 months	>6 to 9 months	Total	>1 to 2 months	>2 to 3 months	>6 to 9 months	Total
Housing	3,449	872	150	4,471	2,299	313	-	2,612
Personal	648	117	-	765	771	217	-	988
Credit Card	173	21	-	194	166	25	-	191
RediCredit	169	46	-	215	199	20	-	219
Total	4,439	1,056	150	5,645	3,435	575	-	4,010

g. Key assumptions in determining the provision for impairment

The bank has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with loan contracts, or where there is other evidence of potential impairment. The bank estimates potential impairment using time that the loan is in arrears and historical losses arising in past years whilst ensuring that impairment estimations remain consistent with prudential guidance provided by APRA.

9. Available for sale investments

Shares in unlisted companies, at cost		2014 $'000	2013 $'000
- Cuscal Limited (Cuscal)		4,382	4,382
- Q.T. Travel Pty. Ltd. (Diploma Travel)		47	47
Total value of investments		4,429	4,429
Less:	- Provisions for amortisation - Q.T. Travel Pty. Ltd. (Diploma Travel)	(46)	(46)
Total available for sale investments		4,383	4,383

Disclosures on shares valued with unobservable inputs

a. Cuscal Limited (Cuscal)

The shareholding in Cuscal is reported at cost. This company is an APRA Approved Deposit-taking Institution that supplies settlement, transaction processing, card, interchange and other services to organisations including Mutual Banks, Credit Unions and Building Societies. The shares may be traded within a market limited to other mutual ADI's. The volume of shares traded is low.

Management have used unobservable inputs to assess the fair value of these shares. Cuscal's financial reports disclose net tangible assets exceeding the value of shares on issue and the fair value of these shares is likely to exceed their cost. However a market value is not able to be readily determined. The most recent transaction value was at $0.65 per share. Dividend return in 2014 was 10.2 cents per share. Management has determined that cost value of $0.60 per share is a reasonable approximation of fair value.

The bank does not intend to dispose of these shares.

b. Q.T. Travel Pty. Ltd. trading as Diploma World Travel Service

The shareholding in Diploma World Travel Service is reported at cost. Diploma Travel provides travel services to members of the bank and their families. The original purchase price has been amortised to $1,001. The shares are not able to be traded and are not redeemable.

10. Property, plant and equipment

	2014 $'000	2013 $'000
Fixed assets: - Land, at cost	8,633	8,850
Buildings, at cost	23,716	22,728
Less: - Provision for depreciation	(12,921)	(12,321)
Net building	10,795	10,407
Total land and buildings	19,428	19,257
Plant and equipment, at cost	24,782	23,264
Less: - Provision for depreciation	(17,720)	(15,801)
Sub-total	7,062	7,463
Capitalised leasehold improvements, at cost	985	934
Less: - Provision for amortisation	(863)	(805)
Sub-total	122	129
Total property, plant and equipment	26,612	26,849

Movement in the asset balances during the year

2014 $'000	Property	Plant and equipment	Leasehold improvement	Total
Opening balance	19,257	7,463	129	26,849
Additions	1,038	2,788	61	3,887
Less: - Assets disposed	(262)	(423)	-	(685)
Less: - Depreciation charge	(605)	(2,766)	(68)	(3,439)
Closing balance	19,428	7,062	122	26,612

2013 $'000				
Opening balance	17,148	7,167	218	24,533
Additions	2,670	3,130	81	5,881
Less: - Assets disposed	(1)	(139)	-	(140)
Less: - Depreciation charge	(560)	(2,695)	(170)	(3,425)
Closing balance	19,257	7,463	129	26,849

11. Taxation assets

Deferred tax assets comprise	2014 $'000	2013 $'000
Accrued expenses not deductible until incurred	177	168
Provisions for impairment on loans	710	533
Provisions for employee benefits	5,233	4,723
Provisions for other liabilities	263	104
Depreciation on fixed assets	229	224
Prepaid loan expenses	-	31
Amortisation of intangible assets	48	78
Deferred tax assets	6,660	5861
Other tax debtor		
GST debtor	96	31
Land tax	93	85
Total taxation assets	6,849	5,977

12. Intangible assets

	2014 $'000	2013 $'000
Computer software, at cost	11,503	9,736
Less: - Provision for amortisation	(7,249)	(5,910)
Total intangible assets	4,254	3,826
Movement in balance during the year		
Opening balance	3,826	3,455
Additions	1,781	1,500
Less: - Amortisation charge	(1,353)	(1,129)
Balance at the end of the year	4,254	3,826

13. Wholesale sector deposits

	2014 $'000	2013 $'000
Negotiable certificates of deposit on issue	320,930	184,885
Total wholesale sector deposits	320,930	184,885

14. Retail deposits

a. Retail deposits

a. Retail deposits	2014 $'000	2013 $'000
At call	1,801,439	1,487,245
Term	1,871,986	2,030,843
Member withdrawable shares	1,619	1,578
Total retail deposits	3,675,044	3,519,666

b. Concentration of liabilities

i) There are no depositors who individually or collectively have deposits which represent 10% or more of total liabilities.

ii) Details of classes of deposits which represent in aggregate 10% or more of total liabilities are set out below.

Balance of accounts held by depositors who are receiving payments from	2014 $'000	2013 $'000
State Super Financial Services	1,003,298	868,099
NSW Department of Education and Communities	601,942	622,208

Number of depositors who are receiving payments from	2014 Number	2012 Number
State Super Financial Services	13,245	12,009
NSW Department of Education and Communities	34,544	36,469

During the year the bank has consolidated multiple occurrences of the same individuals. This will affect comparison between 2013 and 2014 data.

iii)

Geographical concentrations	2014 $'000	2013 $'000
NSW	3,410,784	3,271,995
Victoria	33,672	31,812
Queensland	59,018	54,673
South Australia	8,401	9,411
Western Australia	30,233	25,077
Tasmania	10,821	10,297
Northern Territory	9,015	7,496
ACT	66,212	63,028
Other	45,267	44,299
Total	3,673,423	3,518,088

15. Creditors, accruals and settlement accounts

	2014 $'000	2013 $'000
Creditors and accruals	7,965	21,723
Unearned income	1,007	929
Settlement accounts	476	815
Total creditors, accruals and settlement accounts	9,448	23,467

16. Taxation liabilities

	2014 $'000	2013 $'000
Current income tax liability	3,216	3,003
Other tax liabilities	376	316
Total taxation liabilities	3,592	3,319
Current income tax liability comprises		
Balance from the previous year	3,003	2,297
Less: - Paid	(2,900)	(2,137)
Over (under) statement in prior year	103	160
Liability for income tax in current year	11,848	12,217
Less: - Instalments paid in current year	(8,632)	(9,214)
Current income tax liability	3,216	3,003

17. Provisions

	2014 $'000	2013 $'000
Employee entitlements	17,843	15,670
Lease make good of premises	79	83
Provisions - other	215	177
Total provisions	18,137	15,930

	2014 $'000	2013 $'000
Movement in other provisions during the year were:	**Director development**	**Director development**
Opening balance	177	173
Less: - Paid	(11)	(40)
Liability increase	49	44
Closing balance	215	177

18. Redeemable preference share reserve

	2014 $'000	2013 $'000
Opening balance	514	468
Transfer from retained earnings on share redemptions	39	46
Total capital reserve account	553	514

The redeemable preference share reserve represents the value of redeemable preference shares redeemed since 1st July 1999. It's the value of these shares paid to members, the balance of the account represents the amount of profit appropriated to the account. Share redemptions must be funded from profits.

19. General reserve for credit losses

	2014 $'000	2013 $'000
Opening balance	13,709	20,876
Increase (decrease) transfer from retained earnings	(19)	(7,167)
Total general reserve for credit losses	13,690	13,709

This reserve is maintained to comply with the Prudential Standards set down by Australian Prudential Regulation Authority. It is a reserve in respect of credit losses prudently estimated but not certain to arise over the full life of all the individual facilities comprising the business of the bank.

The methodology to calculate the reserve is a Probability of Default and Loss Given Default approach.

The Board utilises this method and considers any other internal and external factors in determining an appropriate reserve balance.

20. Cash flow hedge reserve

	2014 $'000	2013 $'000
Opening balance	(64)	(14)
Increase (decrease) transfer from retained earnings	(2,092)	(50)
Total cash flow hedge reserve	(2,156)	(64)

Cash flow hedge reserve

The cash flow hedge reserve represents fair value gains and losses on the effective portion of cash flow hedges. Cumulative deferred gains or losses on hedges are recognised as profits or losses when the hedged transactions meet the requirements described in accounting policy note 1(i).

21. Financial risk management objectives and policies

Overview

The bank has exposure to the following risks:

- market risks
  – interest rate risk
  – equity investments
  – liquidity risk
- credit risks,
  – lending
  – investing
- operational risks.

This note outlines the bank's identification, objectives, its policies and processes to measure and manage risks and management of its capital that cover these risks.

Governance

The Board has overall responsibility for the establishment and oversight of the bank's enterprise risk management framework. This responsibility includes approving the enterprise risk management framework, the policies that comprise that framework, and setting the bank's risk appetite. In order to discharge its duties and responsibilities in an appropriate and effective manner, the Board has established a governance framework to identify, manage and report risks. This is represented at an operational level through business units and management as a first line, through Risk and Regulatory Services as a second line, and as a third line through Internal Audit and Board subcommittees.

The Board has established an Audit, Risk and Compliance Committee, comprising five Directors, to oversee financial reporting, the effectiveness of audits, the management of risk and the program of compliance. The Committee is required to devote time and expertise to these areas over and above the time prescribed in scheduled board meetings.

The Audit, Risk and Compliance Committee assist the Board by:

- Providing reasonable assurance to the Board that core business goals and objectives are being achieved in an effective and efficient manner, within an appropriate framework of governance, risk management and internal control;
- Overseeing the integrity and quality of TMBs financial reports and statements, including financial information provided to regulators and members;
- Monitoring the adequacy, integrity and effectiveness of the internal control environment and risk management process;
- Monitoring the effectiveness of the internal audit functions;
- Monitoring the effectiveness of the external audit functions;
- Reviewing the processes established by management to ensure the requirements of APRA's Prudential Standards and the Corporations Act are being adhered to; and
- Monitoring compliance with all other internal, regulatory, prudential, legal, adopted industry and ethical requirements and standards.

The Board has also established a Large Exposures Committee comprising three Directors, with the purpose of reviewing all proposals that could expose the bank to a large credit risk, be it in relation to lending or investing.

The bank has an Assets and Liabilities Committee, comprising Management to oversee the financial operations of the bank. This committee makes policy recommendations to the Board, sets strategy and monitors compliance regarding:

- market risk in relation to interest rate risk and liquidity risk
- credit risk in relation to investment risk
- profitability
- capital management
- growth

Market risk

Interest rate risk

The bank is not exposed to currency risk and other price risk. The bank does not trade in the financial instruments it holds on its books. The bank is exposed to interest rate risk in the banking book arising from changes in market interest rates.

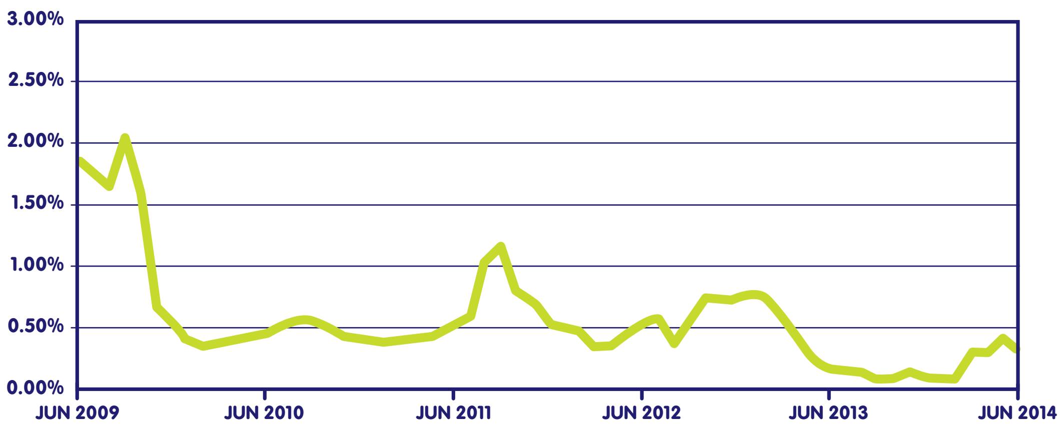
The policy of the bank is to maintain a balanced "on book" hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. However, acknowledging that member demand and competition in the different products may not always allow the bank to achieve a balanced "on book" position, the bank has a Board approved hedging policy in place to ensure appropriate use of derivatives such as interest rate swaps. The bank uses a number of techniques to measure and monitor interest rate risk, these include:

- Short, medium and long term forecasts that are regularly updated
- Monitoring of product totals to targets and the impact on current and future profitability, from likely rate changes
- Monthly Gap analysis
- Monthly Sensitivity analysis
- Monthly Value at Risk analysis
- Monthly Accrued Income Simulations including projections based on flat rates, yield curve, and upward and downward shock rates
- Annual benchmarking against industry.

The bank groups cash flows into buckets based on the likely repricing periods. Consideration is given for both operational and competitive constraints which may differ from the contractual dates as this better reflects the risk in the portfolio.

The level of mismatch on the banking book is set out in Note 23. Note 25 displays the period that each asset and liability will reprice as at the balance date.

Value at Risk (VaR) as a % of capital
99% confidence interval, 20-day holding period, 250-day observation period



Market risk - equity investments

The bank invests in entities established to provide services such as treasury, transactions processing and settlement, and travel services where specialisation demands that quality staff and systems are secured from a single entity. Details of these investments are set out in Note 9.

Liquidity risk

Liquidity risk is the risk that a financial institution may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board that treasury maintains adequate cash reserves and committed credit facilities to meet the member withdrawal demands and other creditor commitments when requested.

The bank manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows
- Monitoring the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities
- Monitoring the prudential liquidity ratio daily
- Holding repo-eligible securities that may be used as collateral when borrowing from the Reserve Bank of Australia.
- Maintaining a securitisation trust to hold mortgage rights that may be provided as collateral should the bank borrow from the Reserve Bank of Australia.

The bank has set out in Note 23 the maturity profile of the financial liabilities, based on the contractual repayment terms.

The bank is subject to the minimum liquidity holdings approach under Prudential Standard APS 210 and as such is not required to adopt the liquidity coverage ratio or net stable funding ratio measures. The bank is required to maintain a minimum of 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours. The bank's risk appetite is to maintain at least 11% of funds as liquid assets to maintain adequate funds to meet member withdrawal requests. The ratio is calculated daily. Should the liquidity ratio fall below this level the management and Board have policies and procedures in place to address the matter and ensure that liquid funds are obtained from new deposits either from Authorised Deposit-taking Institutions (ADIs), retail and wholesale depositors, or borrowing facilities available. Note 28 describes the borrowing facilities available as at the balance date. The bank also maintains a self-securitisation capability. Note 33 details the balance of loans securitised to create repo-eligible securities.

"Total Adjusted Liabilities" for the purpose of Liquidity measurement has been re-defined for 30 June 2014 from total on-statement of financial position liabilities including equity and irrevocable commitments, less capital base defined in accordance with Prudential Standard APS 111 Capital Adequacy to total on-statement of financial position liabilities and irrevocable commitments.

	2014	2013
Total adjusted liabilities	$4,539,416,779	$4,331,295,972
As at 30th June	13.85%	15.36%
Average for the year	15.58%	16.19%
Minimum during the year	13.55%	14.69%

Credit risk

The credit risk of a financial institution is the risk that customers, members, financial institutions and other counterparties will be unable to meet their obligations to the institution resulting in financial loss. Credit risk arises principally from the bank's loan and investment assets.

Credit risk - lending

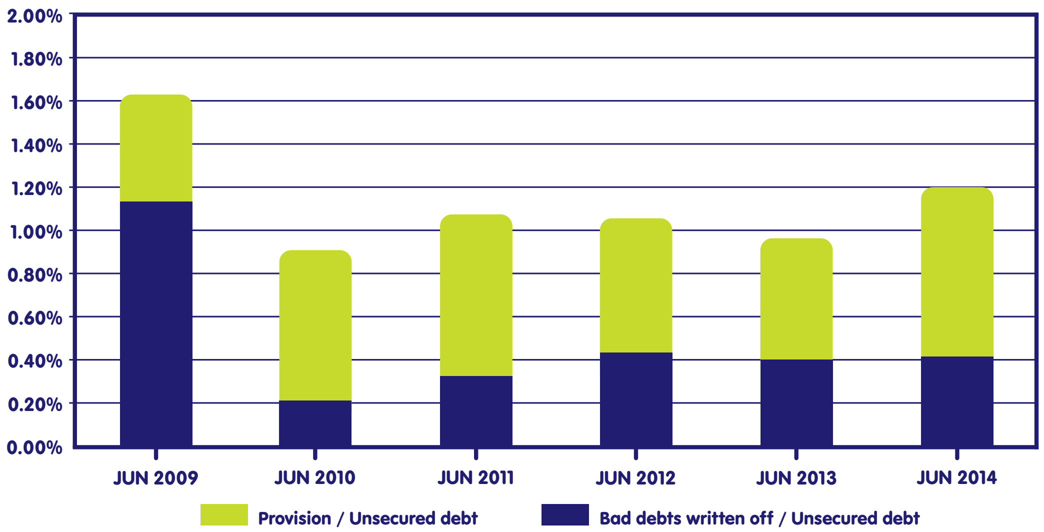
Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus undrawn facilities consisting of loans approved not advanced, redraw facilities, overdraft facilities, credit cards limits and funds held in loan offset accounts. The details are shown in Note 27.

The risk of losses on loans is primarily reduced through the nature and quality of security taken. Note 7b describes the nature of the security held against the loans as at the balance date.

All loans and facilities are within Australia. Geographic distribution is detailed in Note 7c.

Concentrations are described in Note 7c. The bank has a concentration in retail lending to members who are predominantly employees in the Australian education sector and their families. This concentration is considered acceptable on the basis that the bank was formed to service these members, the industry is an essential and stable industry and employment concentration is not restricted to one employer. Should members leave the sector the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

Credit risk is managed through adherence to the credit assessment policies prior to loan approval and monitoring of defaults in the repayment of loans thereafter. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are capable of meeting loan repayments.



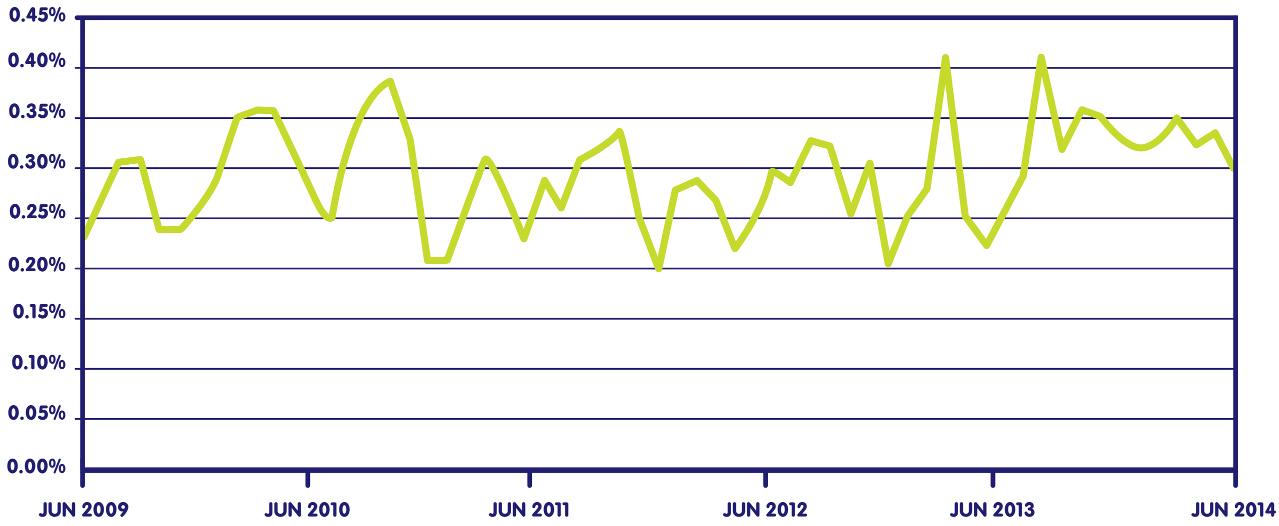
Provision/ unsecured debt and bad debts written off/ unsecured debt

Collateral securing loans

A sizeable portion of the loan book is secured against residential property in Australia. The bank is therefore exposed to the risk of reduction of the Loan to Valuation Ratio (LVR) should residential property valuations be subject to a decline.

Performance of the Mortgage Secured portfolio is managed and monitored against the proportion of loan balances in arrears.

Percentage of mortgage portfolio in arrears



Credit risk – investing

The Bank maintains a treasury credit risk policy to limit risk associated with the investment of funds. This policy requires that all high quality liquid investments eligible for inclusion in the regulatory liquidity calculation meet APRA's investment grade rating criteria. Limits are applied across individual counter party, credit grading class and tenor dimensions. Any individual counterparty credit exposure must not exceed 50% of capital. Internal analysis must be conducted before ALCo approves individual credit limits.

The exposure values associated with each credit quality step* are as follows:

				2014
Investments with:	**No. of institutions**	**Carrying value**	**Past due value**	**Provision**
ADIs-rated A-1+ to A-1 (short-term)	6	246,363,405	-	-
ADIs-rated A-2 (short-term)	8	326,853,484	-	-
ADIs-rated AA+ to AA- (long term)	2	47,000,000	-	-
ADIs-rated A+ to A- (long-term)	4	29,424,319	-	-
Total		649,641,208	-	-

				2013
Investments with:	**No. of institutions**	**Carrying value**	**Past due value**	**Provision**
ADIs-rated A-1+ or A-1 (short-term)	7	440,213,750	-	-
ADIs-rated A-2 (short-term)	8	235,761,338	-	-
ADIs-rated AA or A+ (long-term)	1	3,000,000	-	-
Total		678,975,088	-	-

*Table indicates Standard and Poors (Australia) Pty Ltd equivalent rating as determined by APRA's credit rating grade tables. Exposures may be rated by Standard and Poors (Australia) Pty Ltd, Moodys Investors Service Incorporated or Fitch Ratings Ltd.

Operational risk

Operational risk is the risk of loss resulting from failures in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risk in the bank relates mainly to legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

The bank's objective is to manage operational risk so as to balance the avoidance of financial loss through the application of controls whilst avoiding procedures that inhibit innovation and creativity. These controls are managed through the application of polices, processes and systems to minimize the likelihood and impact of risk events. Some of these controls are:

- Segregation of duties
- Documentation of policies and procedures, employee job descriptions and responsibilities
- Whistleblowing policies
- Education of members
- Effective dispute resolution procedures
- Effective insurance arrangements
- Contingency plans for dealing with loss of functionality of systems or premises or staff.

Operations risk management

The bank has implemented a risk assessment and monitoring system where the board and senior management identify key risks in a "top down" approach and business units identify risks in a "bottom up" approach. These risks are then ranked by loss effect and likelihood after considering risk mitigators such as controls and insurances. Action plans for control improvements are then prioritised, developed and implemented. Key risk indicators are assigned and monitored. A loss register compares experience with the original assessments. Projects are also subject to risk analysis at all stages of the project lifecycle and are actively managed.

Operational risk is managed using the three lines of defence model, where business units and management have the responsibility for risk management as the first line of defence with oversight by the Chief Risk Officer and the Risk and Regulatory Services Department as the second line of defence and the Internal Audit department as the third line of defence. Outputs from the three lines of defence model are presented to the Audit Risk Compliance Committee and the Board.

Compliance

The bank has a compliance program, requiring regular review of policy, procedures and reporting to ensure compliance with legal requirements, code of ethics and Prudential Standards.

Fraud

The bank has systems in place which are considered to be robust enough to prevent material fraud.

Outsourcing arrangements

The bank maintains arrangements with other organisations to facilitate the supply of services to members. All material outsourcing arrangements are subject to a due diligence review and are approved by the Board and subject to ongoing monitoring.

Cuscal Limited

Is an APRA Approved Deposit taking institution that supplies settlement, transaction processing, card, interchange and other services to other organisations including Banks, Credit Unions and Building Societies.

i. It supplies to the bank rights to issue rediCards and Visa cards.
ii. It supplies Visa cards and rediCards;
iii. Cuscal provides settlement services for member cheques, Electronic Funds Transfer (EFT), EFTPOS, ATM, Direct Entry, BPAY and Visa card transactions.
iv. Cuscal operates the switching computer used to link rediCards and Visa cards operated through RediATMs and other approved ATM providers to the bank's computer systems
v. It provides RediATM monitoring and replenishment services for the banks RediATMs, and
vi. Provides treasury and money market facilities to the bank

Ultradata Australia Pty Limited

Provides and maintains the core banking software utilised by the bank.

Capital management

Capital levels are managed to ensure compliance with Australian Prudential Regulation Authority requirements. Those requirements encompass a framework of three pillars.

Pillar 1 – Minimum capital requirements, including a specific capital charge for operational risk.
Pillar 2 – Enhanced supervision of capital management including the application of an internal capital adequacy assessment process.
Pillar 3 – More extensive disclosure requirements.

Pillar 1

Capital is measured as prescribed by Australian Prudential Regulation Authority prudential standards. These standards act to deliver capital requirements in respect of credit risk, market risk and operational risk.

Credit risk

Credit risk is measured using the Standardised Approach defined in Prudential Standard APS112. The capital charge attached to each asset is based on weightings prescribed in Australian Prudential Standards as detailed in the table below.

On-statement of financial position exposures	Carrying value	Risk weighting	Risk weighted amount
Cash	1,362,748	-	-
Deposits in highly rated ADIs	303,284,928	20%	60,656,986
Deposits in less highly rated ADIs	346,356,280	50%	173,178,140
Standard loans secured against eligible residential mortgages up to 80% LVR (up to 90% with Lenders Mortgage Insurance)	2,828,366,643	35%	989,928,325
Standard loans secured against eligible residential mortgages over 80% LVR	547,288,712	50-75%	276,791,770
Other standard mortgage loans	8,635,015	100%	8,635,015
Non-standard mortgage loans	4,459,832	35-100%	2,825,738
Other loans	294,397,829	100%	294,397,829
Other assets	45,263,882	100%	45,263,883
Total	4,379,415,869		1,851,677,686

Non-market related off-statement of financial position exposures	Notional principal amount	Credit conversion factor	Credit equivalent amount	Risk weighting	Risk weighted amount
Loans approved and not advanced	124,982,816	100%	124,982,816	35%-100%	56,796,640
Redraws available	384,949,462	50%	192,474,731	35%-100%	72,874,290
Guarantees	100	100%	100	100%	100
Unused revolving credit limits	266,976,099	-	-	-	-
Possible contribution to CUFSS	140,205,149	-	-	-	-
Total	917,113,626		317,457,647		129,671,030

Market related off-statement of financial position exposures	Notional principal amount	Credit conversion factor	Potential future exposure	Current exposure	Credit equivalent amount	Risk weighted amount
Residual maturity 1 year or less	83,100,000	-	-	-	-	-
Residual maturity > 1 year to 5 years	313,000,000	0.5%	1,565,000	-	1,565,000	313,000
Total	396,100,000		1,565,000	-	1,565,000	313,000

Total weighted credit risk exposures	1,981,661,716

Market risk

The bank is not required to allocate capital against market risk as no trading activity is undertaken and the Standardised Approach does not result in any allocation against interest rate risk in the banking book.

Operational risk

Operational risk is measured using the Standardised Approach defined in Prudential Standard APS114. The capital charge is based upon portfolio balances and revenue streams with scaling and risk factors applied to reflect Australian Prudential Regulation Authority's assessment of the particular risk profiles.

	31-Dec-11	30-Jun-12	31-Dec-12	30-Jun-13	31-Dec-13	30-Jun-14
Total gross outstanding loans and advances for retail banking	2,912,194,314	3,070,330,500	3,212,036,658	3,335,287,137	3,403,852,715	3,686,723,392
- multiplied by 3.5% scaling factor	101,926,801	107,461,568	112,421,283	116,735,050	119,134,845	129,035,319
- multiplied by 12% risk factor	12,231,216	12,895,388	13,490,554	14,008,206	14,296,181	15,484,238
Average of the 6 half-year results = Total operational risk capital requirement for retail banking						13,734,297
Operational risk capital requirement for commercial banking						
Total gross outstanding loans and advances for commercial banking	792,341,065	645,359,216	687,158,408	684,350,086	759,279,481	627,518,223
- multiplied by 3.5% scaling factor	27,731,937	22,587,573	24,050,544	23,952,253	26,574,782	21,963,138
- multiplied by 15% risk factor	4,159,791	3,388,136	3,607,582	3,592,838	3,986,217	3,294,471
Average of the 6 half-year results = Total operational risk capital requirement for commercial banking						3,671,506
Operational risk capital requirement for all other activity						
Adjusted gross income	2,030,846	3,906,064	2,075,673	3,722,777	2,484,320	3,524,209
- multiplied by 18% risk factor	365,552	703,091	373,621	670,100	447,178	634,358
Average of the 3 annual results = Total operational risk capital requirement for all other activity						1,064,633
Total operational risk capital requirement						18,470,436
Risk Weighted Asset (RWA) equivalent amount for operational risk capital requirement = Operational risk capital * 12.50						230,880,453
Total credit and operational risk weighted						2,212,542,169

Capital resources

Tier 1 capital

The majority of Tier 1 capital consists of Common Equity Tier 1 Capital, which is our retained earnings.

Tier 2 capital

Consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by Australian Prudential Standards. Tier 2 capital generally comprises a reserve for credit losses.

A minimum capital ratio of 8% is required to be maintained at all times. Our policy requires reporting to the Board if the capital ratio falls below 14%.

The capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The bank 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. A stress test based on various asset growth and profitability assumptions is conducted annually.

Capital in the mutual bank is made up as follows:		**2014**	**2013**
Tier 1 Common Equity		350,009,661	328,771,775
Less:	- Prescribed deductions	(15,295,600)	(14,068,741)
Tier 1 capital		334,714,061	314,703,034
Tier 2 Reserve for credit losses		13,061,148	13,708,723
Less:	- Prescribed deductions	-	-
Tier 2 capital		13,061,148	13,708,723
Total capital		347,775,209	328,411,757

The capital ratio as at the end of the financial year over the past 4 years is as follows:

2014	**2013**	**2012**	**2011**
15.72%	15.98%	15.85%	15.65%

Pillar 2 risk capital

Pillar 2 of the Prudential Framework relates to any risk factor to which an ADI might be exposed that is not included in Pillar 1.

These risks fall into 3 categories.

- Pillar 1 risks not fully captured by the Pillar 1 process, for example credit concentration risk.
- Inherent risks not covered by Pillar 1, including:
  - interest rate risk in the banking book
  - liquidity risk
  - strategic risk
- Risks arising from external factors such as business cycles effects and the macroeconomic environment.

The bank documents, analyses and sets its own internal capital requirements to meet Pillar 2 risks. The methodologies used to assess the required capital are a combination of quantitative and qualitative assessment and by their nature are based on a degree of collective subjective judgment of senior management and the Board.

Risks requiring uplift

The following risks were assessed as being of sufficient significance to require additional capital support over and above the Pillar 1 capital requirement (uplift):

Strategic Risk

- Business environment risk
- Business opportunities

Credit Risk

- Investing - counterparty default risk

Operational Risk

Market Risk

- Liquidity - lack of diversification of funding sources
- Interest rate risk in the banking book

An additional 4% capital was determined to be adequate to cover these risks.

Internal capital adequacy management

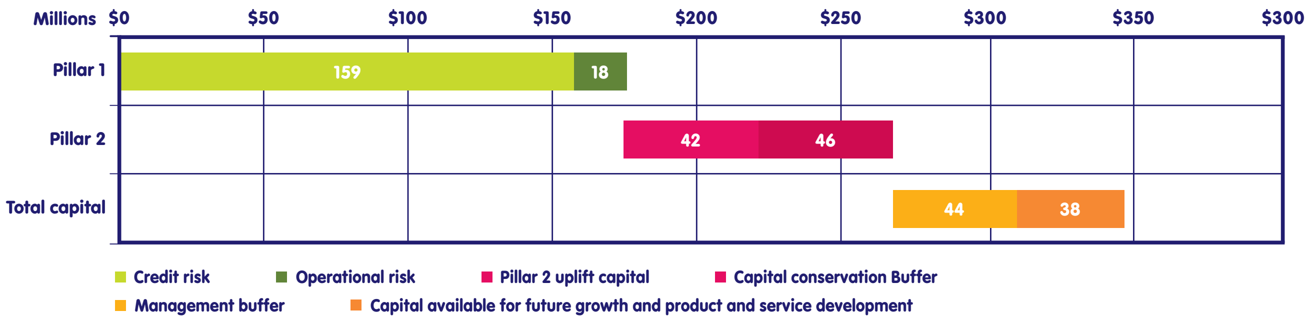
The bank manages its internal capital levels for both current and future activities through a combination of committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the bank's forecasts for asset growth or unforeseen circumstances are assessed by the Board. The capital resource model is then produced for further Board consideration. Management then updates the forecast capital resources models produced and the impact upon the overall capital position of the bank is reassessed.

Contingency buffer

Based on historical fluctuations in capital the bank incorporates a contingency buffer of 2% when targeting minimum levels of capital and when preparing its Capital Management Plan to cover volatility in the risks identified above.

	RWA	Minimum capital required	% Equivalent of RWA
Credit risk	1,981,661,716	158,532,937	8.00%
Operational risk	230,880,453	18,470,437	8.00%
Total	2,212,542,169	177,003,374	8.00%
Pillar 2 uplift capital		88,501,687	4.00%
ICAAP capital required		265,505,061	12.00%
Buffer for business cycle volatility		44,250,843	2.00%
Capital available for future growth and product and service development		38,019,305	1.72%
Risk-based capital ratio		347,775,209	15.72%
Common Equity Tier 1 capital ratio		334,714,061	15.13%
Tier 1 capital ratio		334,714,061	15.13%
Tier 2 capital ratio		13,061,148	0.59%

Categorisation of capital



22. Categories of financial instruments

a. The following information classifies the financial instruments into measurement classes

Financial assets - carried at amortised cost	Note(s)	2014 $'000	2013 $'000
Cash on hand and deposits at call		111,093	45,939
Receivables from financial institutions	4	539,911	634,326
Receivables	6	16,352	13,597
Loans and advances to members	7 & 8	3,682,909	3,351,556
Total carried at amortised cost		4,350,265	4,045,418
Cash flow hedge derivative assets - carried at fair value	5	-	-
Available for sale investments - carried at fair value	9	4,383	4,383
Total financial assets		4,354,648	4,049,801
Financial liabilities - carried at amortised cost			
Wholesale sector deposits	13	320,930	184,885
Retail deposits	14	3,675,044	3,519,666
Creditors, accruals and settlement accounts	15	9,448	23,467
Total carried at amortised cost		4,005,422	3,728,018
Cash flow hedge derivative liabilities - carried at fair value	5	2,333	71
Total financial liabilities		4,007,755	3,728,089

b. Assets measured at fair value

	2014 $'000	Level 1	Level 2	Level 3
Cash flow hedge derivatives	-	-	-	-
Available for sale investments	4,383	-	-	4,383
Total	4,383	-	-	4,383

	2013 $'000	Level 1	Level 2	Level 3
Cash flow hedge derivatives	-	-	-	-
Available for sale investments	4,383	-	-	4,383
Total	4,383	-	-	4,383

The fair value hierarchy levels are outlined in note 1(u).

Cash flow hedge derivatives

The fair value of derivative financial instruments (interest rate swaps) are calculated using discounted cash flow models using interest rates derived from market interest rates that match the remaining term of the swaps. Thus the basis for determining the fair value of derivative financial instruments is classified as Level 2.

Available for sale investments

Due to the lack of publicly available data on the transfer of these shares, the bank has measured the shares at cost and is classified as Level 3.

23. Maturity profile of financial assets and liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are stated at undiscounted values (including future interest expected to be earned or paid), and will not equate to values in the statement of financial position.

2014 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	No maturity	Total	Statement of financial position
Cash on hand and deposits at call	111,093	-	-	-	-	-	111,093	111,093
Receivables from financial institutions	128,780	220,868	190,263	-	-	-	539,911	539,911
Receivables	9,256	5,132	5,737	535	-	-	20,660	16,352
Loans and advances to members	39,181	77,772	342,885	1,199,448	4,620,419	-	6,279,705	3,682,909
Available for sale investments	-	-	-	-	-	4,383	4,383	4,383
Total financial assets	288,310	303,772	538,885	1,199,983	4,620,419	4,383	6,955,752	4,354,648

2014 Liabilities $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	No maturity	Total	Statement of financial position
Wholesale sector deposits	85,000	156,035	82,033	-	-	-	323,068	320,930
Retail deposits	1,897,189	671,169	752,817	385,967	-	2,226	3,709,368	3,675,044
Cash flow hedge derivative liabilities	965	1,553	986	2,136	-	-	5,640	2,333
Creditors, accruals and settlement accounts	9,448	-	-	-	-	-	9,448	9,448
Total financial liabilities	1,992,602	828,757	835,836	388,103	-	2,226	4,047,524	4,007,755

2013 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	No maturity	Total	Statement of financial position
Cash on hand and deposits at call	45,939	-	-	-	-	-	45,939	45,939
Receivables from financial institutions	114,515	213,090	306,721	-	-	-	634,326	634,326
Receivables	6,485	5,910	8,823	-	-	-	21,218	13,597
Loans and advances to members	38,658	76,767	337,836	1,162,253	4,233,115	-	5,848,629	3,351,556
Available for sale investments	-	-	-	-	-	4,383	4,383	4,383
Total financial assets	205,597	295,767	653,380	1,162,253	4,233,115	4,383	6,554,495	4,049,801

2013 Liabilities $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	>5 years	No maturity	Total	Statement of financial position
Wholesale sector deposits	67,500	117,028	1,018	-	-	-	185,546	184,885
Retail deposits	1,714,458	706,808	769,140	375,603	-	1,982	3,567,991	3,519,666
Cash flow hedge derivative liabilities	46	32	35	17	-	-	130	71
Creditors, accruals and settlement accounts	23,467	-	-	-	-	-	23,467	23,467
Total financial liabilities	1,805,471	823,868	770,193	375,620	-	1,982	3,777,134	3,728,089

24. Current and non-current maturity profile of financial assets and liabilities

This table provides a discounted summary of the profile provided at note 23. Contractual arrangements are the best representation of minimum repayment amounts on loans, liquid investments and on the member deposits within 12 months. Liquid investments and member deposits are presented on a contractual basis, however it is expected that a large proportion of these balances will roll over. Loan repayments are generally accelerated with members choosing to repay loans earlier. These advance repayments are at the discretion of the members and are not able to be reliably estimated.

2014 Assets $'000	Within 12 months	After 12 months	Total
Cash on hand and deposits at call	111,093	-	111,093
Receivables from financial institutions	539,911	-	539,911
Receivables	16,352	-	16,352
Loans and advances to members	263,869	3,421,502	3,685,371
Available for sale investments	-	4,383	4,383
Total financial assets	931,225	3,425,885	4,357,110
2014 Liabilities $'000			
Wholesale sector deposits	320,930	-	320,930
Retail deposits	3,302,817	372,227	3,675,044
Cash flow hedge derivative liabilities	2,333	-	2,333
Creditors, accruals and settlement accounts	9,448	-	9,448
Total financial liabilities	3,635,528	372,227	4,007,755
2013 Assets $'000			
Cash on hand and deposits at call	45,939	-	45,939
Receivables from financial institutions	634,326	-	634,326
Receivables	13,597	-	13,597
Loans and advances to members	261,940	3,092,533	3,354,473
Available for sale investments	-	4,383	4,383
Total financial assets	955,802	3,096,916	4,052,718
2013 Liabilities $'000			
Wholesale sector deposits	184,885	-	184,885
Retail deposits	3,167,808	351,858	3,519,666
Cash flow hedge derivative liabilities	71	-	71
Creditors, accruals and settlement accounts	23,467	-	23,467
Total financial liabilities	3,376,231	351,858	3,728,089

25. Interest rate change profile of financial assets and liabilities

Financial asset and liability contracts allow interest rates to be amended on maturity (term deposits and term investments) or after proper notice is given (loans and savings). The table below reflects the value of funds where interest rates may be altered within prescribed time bands, being the earlier of the contractual repricing date or the maturity date.

2014 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Non-interest bearing	Total
Cash on hand and deposits at call	109,730	-	-	-	1,363	111,093
Receivables from financial institutions	128,780	220,868	190,263	-	-	539,911
Receivables	-	-	-	-	16,352	16,352
Loans and advances to members	2,710,827	23,992	117,364	833,017	171	3,685,371
Available for sale investments	-	-	-	-	4,383	4,383
Total financial assets	2,949,337	244,860	307,627	833,017	22,269	4,357,110

2014 Liabilities $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Non-interest bearing	Total
Wholesale sector deposits	84,890	155,205	80,835	-	-	320,930
Retail deposits	1,896,744	667,357	738,716	370,001	2,226	3,675,044
Cash flow hedge derivative liabilities	942	1,391	-	-	-	2,333
Creditors, accruals and settlement accounts	-	-	-	-	9,448	9,448
On-statement of financial position	1,982,576	823,953	819,551	370,001	11,674	4,007,755
Undrawn loan commitments (Notes 27a, 27b and 27c)	918,901	-	-	-	-	918,901
Total financial liabilities	2,901,477	823,953	819,551	370,001	11,674	4,926,656

2013 Assets $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Non-interest bearing	Total
Cash on hand and deposits at call	44,649	-	-	-	1,290	45,939
Receivables from financial institutions	114,515	213,090	306,721	-	-	634,326
Receivables	-	-	-	-	13,597	13,597
Loans and advances to members	2,887,424	15,297	166,528	285,031	193	3,354,473
Available for sale investments	-	-	-	-	4,383	4,383
Total financial assets	3,046,588	228,387	473,249	285,031	19,463	4,052,718

2013 Liabilities $'000	Within 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Non-interest bearing	Total
Wholesale sector deposits	67,432	116,444	1,009	-	-	184,885
Retail deposits	1,713,889	701,881	752,038	349,876	1,982	3,519,666
Cash flow hedge derivative liabilities	45	26	-	-	-	71
Creditors, accruals and settlement accounts	-	-	-	-	23,467	23,467
On-statement of financial position	1,781,366	818,351	753,047	349,876	25,449	3,728,089
Undrawn loan commitments (Notes 27a, 27b and 27c)	713,416	-	-	-	-	713,416
Total financial liabilities	2,494,782	818,351	753,047	349,876	25,449	4,441,505

26. Fair value of financial assets and liabilities

Fair value is required to be disclosed where financial instruments are not reported at fair value in the Statement of Financial Position unless the carrying amount is a reasonable approximation of fair value. Fair values reported below are measured using Level 2 or Level 3 unobservable inputs described at note 1u.

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are regularly traded by the bank and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets.

	2014 $'000			2013 $'000		
Assets	**Fair value**	**Book value**	**Variance**	**Fair value**	**Book value**	**Variance**
Cash on hand and deposits at call	111,093	111,093	-	45,939	45,939	-
Receivables from financial institutions	540,224	539,911	313	634,984	634,326	658
Receivables	16,352	16,352	-	13,597	13,597	-
Loans and advances to members	3,681,716	3,682,909	(1,193)	3,355,255	3,351,556	3,699
Available for sale investments	4,383	4,383	-	4,383	4,383	-
Total financial assets	4,353,768	4,354,648	(880)	4,054,158	4,049,801	4,357
Liabilities						
Wholesale sector deposits	320,953	320,930	23	184,896	184,885	11
Retail deposits	3,680,274	3,675,044	5,230	3,527,037	3,519,666	7,371
Cash flow hedge derivative liabilities	2,333	2,333	-	71	71	-
Creditors, accruals and settlement accounts	9,448	9,448	-	23,467	23,467	-
Total financial liabilities	4,013,008	4,007,755	5,253	3,735,471	3,728,089	7,382

Assets where the fair value is lower than the book value have not been written down in the accounts of the bank on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

Fair value estimates were determined using the following methodologies and assumptions:

Liquid assets and receivables from other financial institutions

The carrying value of cash is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of NCDs and term deposits from other financial institutions. The rates applied to give effect to the discount of cash flows were 2.71%-3.40% (2013 2.85%-3.64%). Independent revaluations were used for fixed income security trading margins.

Loans and advances

The carrying value of loans and advances is net of unearned income and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The rates applied to give effect to the discount of cash flows were 4.82%-11.50% (2013 4.89%-11.50%)

The fair value of impaired loans was calculated by discounting expected cash flows using a rate, which includes a premium for the uncertainty of the flows.

Wholesale sector and retail deposits

The fair value of call and variable rate deposits is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of term deposits, based upon the deposit type and the rate applicable to its related period maturity.

Wholesale sector deposits: The rates applied to give effect to the discount of cash flows were 2.87%-3.42% (2013 3.12%-3.38%).

Retail deposits: The rates applied to give effect to the discount of cash flows were 2.50%-3.89% (2013 2.73%-4.40%).

Short-term borrowings: The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

27. Financial commitments

a. Outstanding loan commitments

	2014 $'000	2013 $'000
The loans approved but not funded	124,983	106,990

b. Loan redraw facilities

	2014 $'000	2013 $'000
The loan redraw facilities available ☻	384,949	347,418

c. Undrawn loan facilities

Loan facilities available to members for overdrafts and credit cards are as follows:	2014 $'000	2013 $'000
Total value of facilities approved	366,051	358,495
Less: - Amount advanced	(99,075)	(99,487)
Net undrawn value	266,976	259,008

d. Future capital commitments

The bank has entered into a contract to purchase plant and property for which the amount is to be paid over the following periods:	2014 $'000	2013 $'000
Not later than one year	275	975
Total	275	975

e. Computer capital commitments

	2014 $'000	2013 $'000
Not later than one year	191	521
Total	191	521

f. Lease expenditure commitments

Operating leases on property occupied by the bank	2014 $'000	2013 $'000
Not later than one year	720	681
Later than 1 year but not 2 years	808	550
Later than 2 years but not 5 years	1,286	368
Over 5 years	-	-
Total	2,814	1,599

Operating leases are in respect of property used to provide office space for staff. There are no contingent rentals applicable to leases taken out. Lease terms are between 2 to 5 years and options for renewal are usually obtained for a further 3 years.

There are no restrictions imposed on the bank to limit the execution of further leases or borrowing of funds.

28. Standby borrowing facilities

The bank has borrowing facilities with Cuscal as follows:

2014 $'000	Gross	Current borrowings	Net available
Overdraft facility	25,000	-	25,000
Total standby borrowing facilities	25,000	-	25,000
2013 $'000			
Overdraft facility	25,000	-	25,000
Total standby borrowing facilities	25,000	-	25,000

The bank maintains a deposit of $77M with Cuscal to secure this facility and settlement services. No other form of security is provided by the bank.

29. Contingent liabilities

Liquidity support scheme

The bank is a member of the CUFSS Limited, a company limited by guarantee, established to provide financial support to member Australian Mutual Authorised Deposit Taking Institutions (ADIs) in the event of a liquidity or capital problem. The bank is committed to maintaining a balance equivalent to 3.2% of its total assets as deposits in an approved form.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating mutual ADI member is 3.2% of the bank's total assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating Australian Mutual Authorised Deposit Taking Institutions' irrevocable commitment under the ISC.

30. Disclosures on Directors and other key management persons

a. Remuneration of Key Management Persons (KMP)

Key management persons have direct or indirect authority and responsibility for planning, directing and controlling the activities of the bank, and include any Director of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMP is deemed to comprise the Directors and the seven members of the executive management (2013-2014) responsible for the day to day financial and operational management of the bank.

The aggregate compensation of Directors and other KMP during the year comprising amounts paid or payable or provided for was as follows:

					2014 $'000
Directors	**Short-term**	**Post-employment**	**Motor vehicle**	**Net increases in long service leave provision**	**Total**
Short-term employee benefits					
J Kouimanos	67	31	13	-	111
L Green	78	7	-	-	85
T Carlin	62	6	-	-	68
M Collopy	34	40	-	-	74
J Leete	60	5	-	-	65
G Lockwood	44	25	-	-	69
C McEvedy	62	6	-	-	68
M O'Neill	62	6	-	-	68
M O'Halloran	59	8	-	-	67
Short-term employee benefits - other	21	-	-	-	21
Reimbursement to Employer	8	-	-	-	8
Total	557	134	13	0	704
Other KMP	2,921	250	70	164	3,405

Directors	Short-term	Post-employment	Motor vehicle	Net increases in long service leave provision	Total
					2013 $'000
Short-term employee benefits					
J Kouimanos	73	25	21	-	119
L Green	76	7	-	-	83
T Carlin	59	5	-	-	64
M Collopy	33	38	-	-	71
A FitzGerald	39	16	-	-	55
J Leete	59	5	-	-	64
G Lockwood	63	5	-	-	68
C McEvedy	59	5	-	-	64
M O'Halloran	9	1	-	-	10
Short-term employee benefits – other	57	8	-	-	65
Employer	8	-	-	-	8
Reimbursement to Employer	10	-	-	-	10
Total	545	115	21	-	681
Other KMPs	2,656	225	82	248	3,211

Remuneration shown as short term benefits comprises wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, and excludes out of pocket expense reimbursements.

All remuneration to Directors was approved by members at the previous Annual General Meeting.

Post-employment comprises contributions to superannuation, including those made under salary sacrifice arrangements.

b. Loans to Directors and other Key Management Persons

All loans approved and deposits accepted are on the same terms and conditions applying to members for each class of loan or deposit. There are no loans impaired relating to Directors or other KMP.

No benefits or concessional terms and conditions are applicable to close family members of KMP. There are no loans impaired in relating to close family relatives of Directors and other KMP.

	2014 $'000			2013 $'000		
	Mortgage term loans	Other term loans	Revolving credit facilities	Mortgage term loans	Other term loans	Revolving credit facilities
Funds available to be drawn	2,009	-	162	845	13	172
Balance	2,134	22	60	2,427	35	50
Amounts disbursed or facilities increased in the year	576	-	1	-	-	25
Interest and other revenue earned	122	4	8	160	6	8

Other transactions between related parties include deposits from Directors and other KMPs are:	2014 $'000	2013 $'000
Total value term and savings deposits from Directors and other KMPs	3,915	5,618
Total interest paid on deposits to Directors and other KMPs	122	242

All transactions are approved and deposits accepted on the same terms and conditions that apply to members for each type of deposit.

c. Transactions with other related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors, and other KMP.

All transactions are approved and deposits accepted on the same terms and conditions that apply to members for each type of deposit.

There are no benefits paid or payable to close family members of the Directors and KMP.

There are no service contracts to which Directors and KMP or their close family members are an interested party.

31. Segmental reporting

The bank operates in the retail banking and associated services industry within Australia. There are no identifiable segments to report.

32. Superannuation liabilities

The bank contributes to the NGS Super Plan for the purpose of the Superannuation Guarantee and other superannuation benefits provided on behalf of employees.

The bank has no interest in the Superannuation Plan (other than as a contributor) and the only possible liability that could arise in respect of those 2 staff (2013 – 2 staff) where a minimum defined benefit guarantee applies. The minimum benefit guarantee applies to those staff who were members of the predecessor fund of the NGS Super Plan at 30th June 1992, being the date the plan restructured from a defined benefit basis to a defined contribution (accumulation) basis, and who have not elected to transfer to the accumulation basis. These members are in a defined benefit sub-plan in the NGS Super Plan.

Following the last full actuarial valuation dated 30th June 2011, the actuary, Anna Collins of Mercer Consulting (Australia) Pty Ltd, confirmed that the defined benefit sub-plan in the NGS Super Plan was in a satisfactory financial condition. Following the March 2014 quarterly financial update, the defined benefit sub-plan in the NGS Super Plan remained in a satisfactory financial condition.

33. Transfers of financial assets

The bank has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:

i. Securitised loans retained off-statement of financial position

Integris Securitisation Services Pty Limited whereby it acts as an independent contractor to promote and complete loans on their behalf, for on sale to an investment trust. The bank also manages the loans portfolio on behalf of the trust. The bank bears no risk exposure in respect of these loans. The bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

During the year the bank assigned nil loans (2013 $nil) to Integris.

	2014 $'000	2013 $'000
Total amount of securitised loans under management	-	908

The values of above securitised loans qualify for de-recognition as the bank assumes the contractual obligation to pay all cash flows it received on the loans to the trust and receives no benefit from the net gains or losses in the trust.

Integris Securitisation Services Pty Limited
The Integris securitisation trust is an independent securitisation vehicle established by Cuscal.

The arrangement with Integris was terminated in June 2014.

The bank has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. This arrangement is with:

ii. Securitised loans retained on-statement of financial position

EdSec Funding Trust No.1 has been established as a mechanism to obtain liquid funds from the Reserve Bank of Australia.

The value of securitised loans that do not qualify for de-recognition are set out below. All loans are variable interest rate loans, with the book value and fair value of the loans being equivalent. During the year the bank assigned $546M loans (2013 $nil) to the Trust.

	2014 $'000	2013 $'000
Total amount of securitised loans under management	489,339	361,218

34. Notes to statement of cash flows

a. Reconciliation of cash

Cash includes cash on hand and deposits at call with other financial institutions and comprises:	2014 $'000	2013 $'000
Cash on hand and deposits at call	111,093	45,939

b. Reconciliation of cash from operations to accounting profit

The net cash increase/(decrease) from operating activities is reconciled to the profit after tax	2014 $'000	2013 $'000
Profit after income tax	25,806	28,098
Add (less):		
- Provision for impairment and bad debts written off (net)	2,174	2,226
- Depreciation of property, plant and equipment	4,792	4,554
- Provision for employee entitlements	2,173	1,784
- Other provisions	607	(421)
- Loss on disposal of plant and equipment (net)	(127)	18
- Bad debts recovered	(1,009)	(1,066)
Changes in assets and liabilities		
- Prepaid expenses and sundry debtors	(22)	(458)
- Accrued expenses and sundry creditors	225	1,616
- Interest receivable	810	(305)
- Interest payable	(5,072)	(3,008)
- Other income receivable	(71)	(58)
- Unearned income	78	46
- Increases in loans and advances to members	(333,095)	(270,590)
- Increase in retail deposits	143,224	160,890
- Provision for income tax	190	694
- Deferred tax assets	(800)	(425)
Net cash flows from operating activities	(160,117)	(76,405)

Cash on hand and deposits at call include restricted access accounts that are limited to our security deposit obligations with Cuscal.

35. Events occurring after the balance date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the bank in subsequent financial years.

36. Corporate information

Teachers Mutual Bank Limited is a company limited by shares, and is registered under the Corporations Act (Cth) 2001. The address of the registered office and principal place of business is 28-38 Powell Street, Homebush NSW 2140. The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the bank.

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Meredith, member since 2002

Need more information? We're here to help.

13 12 21
8am to 7pm, weekdays
9am to 3pm, Saturday

tmbank.com.au

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Affiliates

Customer Owned Banking Association (COBA)
Asian Confederation of Credit Unions
CUFSS
CUFA
World Council of Credit Unions

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