Teachers Mutual Bank
We put you first

Annual Report

2012-2013

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 practice.

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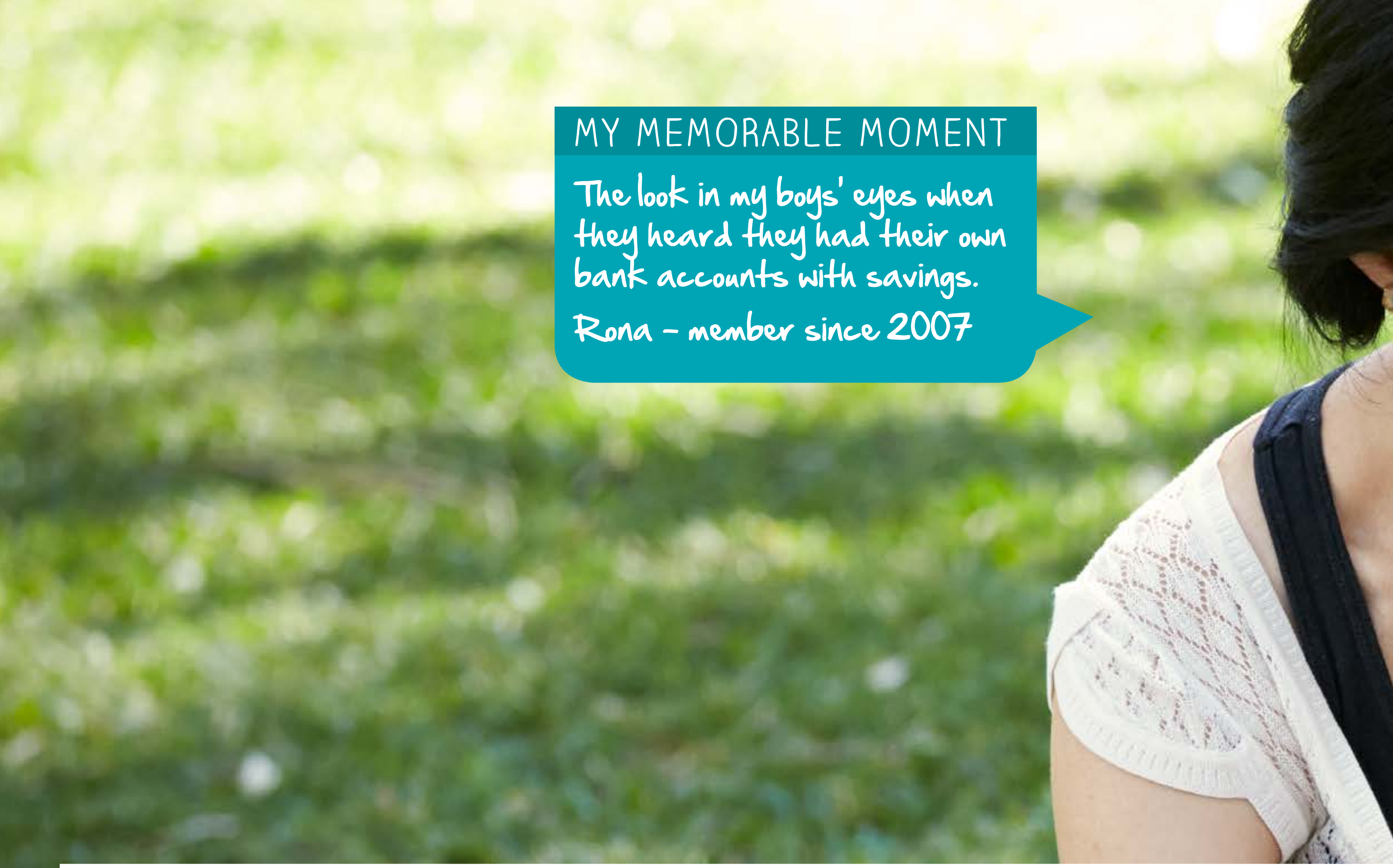


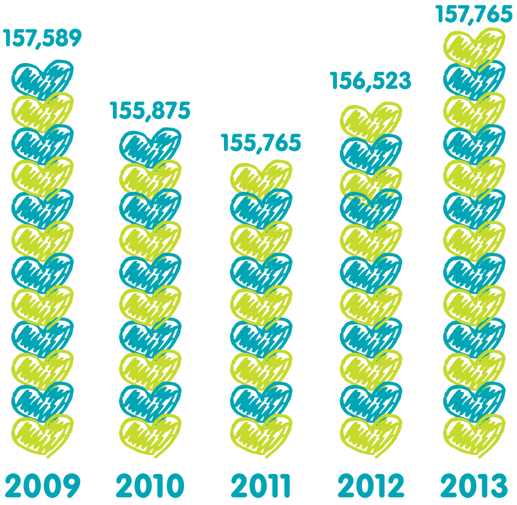
Key financial performance

Our focus is to maintain sustainable growth to ensure 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 the 8% minimum required by the Australian Prudential Regulation Authority (APRA).

Membership

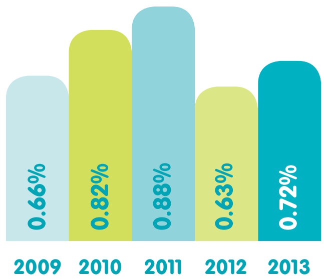


Reserves

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

Profit after income tax

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



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 means the total amount of money owed to us by our members from personal loans, secured (home) loans, credit or debit cards.

Member deposits

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

Assets

Assets are made up of all Teachers Mutual Bank assets.

Chairperson and Chief Executive's report

The 2012-2013 financial year saw us continue our STRONG financial position as one of the leading mutual banks in Australia.

Our asset base grew by a strong 8.5% to $4.1 billion, a robust result in a financial year characterised by uncertainty in both domestic and international economies.

Our surplus for the year was $28.1 million, up 22% from $23.1 million in 2012. This is a reflection of the financial strength of our organisation and our continued commitment to mutuality. We continue to provide you, our members, with excellent loan and deposit interest rates throughout these challenging economic conditions. We are also pleased to report our capital reserves increased to $341 million.

Last year we spoke about our regulator, APRA, implementing the new Basel III regime in Australia, ahead of most other world economies. Although the majority of these requirements are set to be introduced by 2015, we have already seen some of their impact as the four major banks in Australia increase their local retail deposits, thus reducing their reliance on overseas wholesale funding. They have also refocused on the domestic home mortgage market to increase their market share.

While the above is great news for consumers, it will mean all financial institutions will be competing harder for business, especially in both the deposit and mortgage loan space. As one of the leading mutuals in Australia, with a strong brand identity and good member engagement, your directors and management are confident that Teachers Mutual Bank is well-placed to manage those challenges, retain our competitiveness and grow our mutual market share.

Again this year, while other institutions are struggling to attract borrowers, our home loan portfolio continued to grow well above industry levels at 10%. In 2014, we plan to continue our history of strong growth, prudent lending and strong loan quality. It is now over twelve months since we became Teachers Mutual Bank made the commitment to continue to do what we've always done – put you, our members first.

We do this by continuing to improve member services and value, by offering easy and accessible financial services and by investing in our people, infrastructure and technology.

A major strategic initiative of the Board of Directors (Board) and management over the coming years is to grow our membership. We have a strong commitment to this in the Board's Strategic Plan and already have campaigns running to attract new members. A major focus is to ensure that we are well-placed to attract the next generation of teacher members, namely those currently pursuing education/teaching studies at universities. In order to maximise our best efforts in this endeavour, some organisational changes will be required and this will involve member support and approval.

There will also be further developments to help education students and new teachers as we build better relationships with universities by introducing specialised business development staff. This will allow us to better understand the unique needs of education students and new teachers and help improve our own standing and relationship with these centres for future membership. We are also focused on supporting and growing our younger membership. This initiative includes building the best financial solutions and social media communication options to educate and keep younger members engaged.

This year we are starting work with a select group of home loan brokers. Research and banking experience clearly shows the advantages of using this channel to generate new mortgage loan growth. This will ensure that more potential members know about us and have greater access to our products and services.

We will also be improving our product and service options for members. This includes deposit products to help members save and earn more at every stage of their lives.

Continuing our quest for innovative solutions through our mobile and internet banking platforms, we will be making internet banking enhancements, upgrading our mobile android and IOS apps, and redeveloping our website to help all members better manage their finances.

We trust that our endeavours will continue to honour the commitment we have made to put you, our members, first. The heritage of our past is one in which we can all be proud. Our first full year as Teachers Mutual Bank has opened a new and exciting chapter in our journey, which will, in the fullness of time, leave its own proud legacy of service to members.

John Kouimanos

Steve James

Sustainability

For us, sustainability is simply the way we do business – it is built in, not bolted on.

CR INDEX
2013 GOLD
BUSINESS IN THE COMMUNITY

Gold status

in the international Corporate Responsibility Index.

Sustainability has always been an integral part of our business. It is who we are. We believe that profit has a purpose and that well-directed profits not only have a real impact on our members but also deliver wider good to the education sector.

We have five sustainability priority areas – our members, sustainable business practices, the education sector, the environment and our employees.

Through regular engagement with our members, we know that being sustainable is important. **We are one hundred per cent committed to doing what's right.** We believe that success is not only measured in terms of profit and growth, but also by how we engage with and support our members, our communities, our employees, and how we minimise our impact on the environment. Sustainability has always been integral to who we are and we exist for the mutual benefit of our members, teachers, and the education sector.

In the past 12 months we have

continued to improve our organisational performance and have been recognised both nationally and internationally as a leader in sustainability and social responsibility.

This includes:

- Spending ten times the finance sector average on community investment with our total investment of 4.2% of pre-tax profits[1];
- Being awarded Gold status (90%) in the international Corporate Responsibility Index,[2] leaping from Bronze in 2012 (79%);
- Winning the 2012 Sustainability Award at Mutuals 2012[3], the Abacus AM Institute Convention for the mutuals industry; and
- Winning the 'Best Bank in Socially Responsible Performance' category in the prestigious Asia-Pacific Banking and Finance Awards[4] in June 2013.

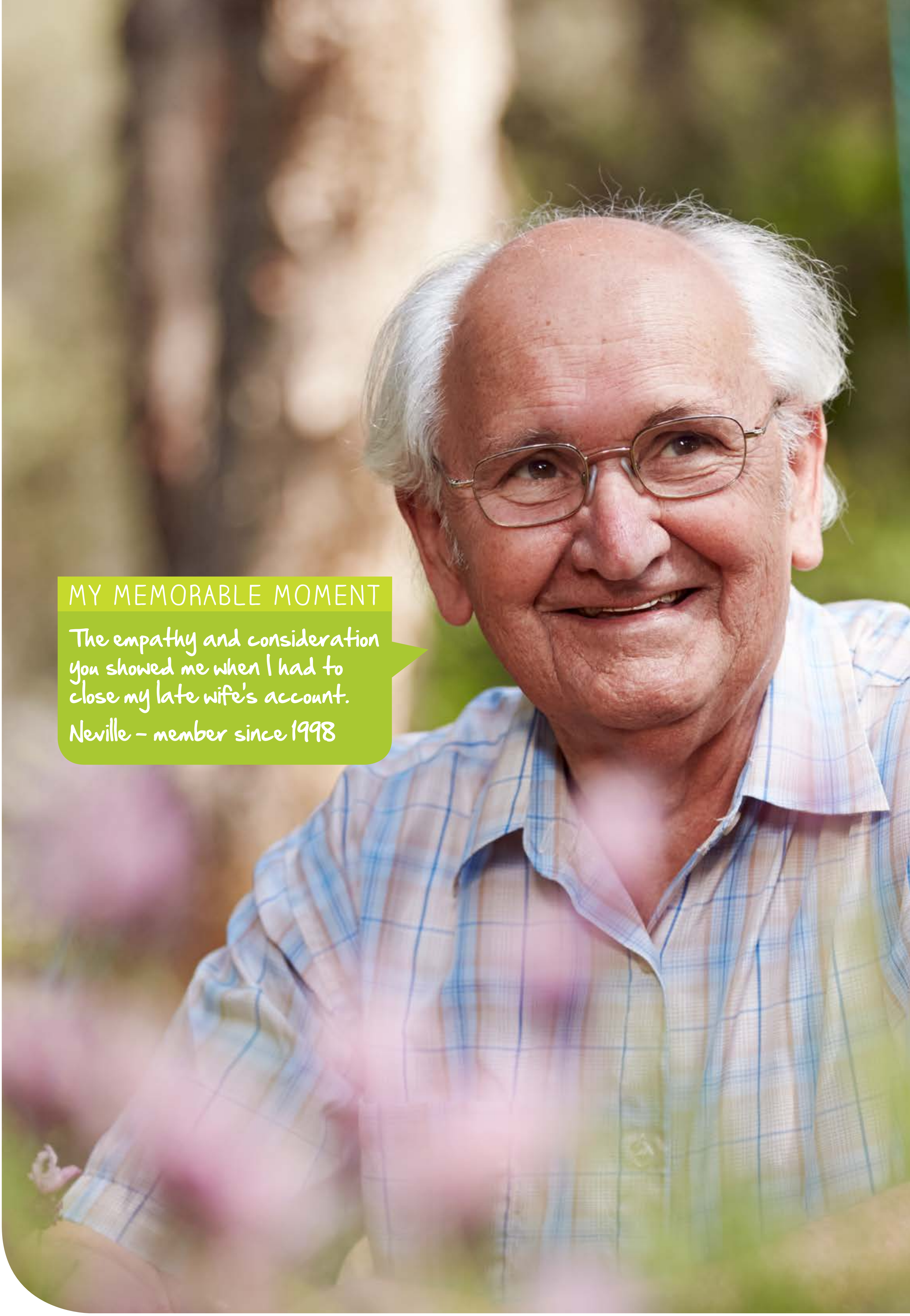
These are fantastic results and we are honoured to receive such high accolades for our efforts.

AB+F AWARDS WINNER
BEST BANK IN SOCIALLY RESPONSIBLE PERFORMANCE (ESG) OF THE YEAR

2013 'Best Bank in Socially Responsible Performance'

2012 VERIFIED LBG AU & NZ

Teachers Mutual Bank is a global leader in community investment



MY MEMORABLE MOMENT

The empathy and consideration you showed me when I had to close my late wife's account.

Neville – member since 1998

MY MEMORABLE MOMENT

Being approved for my first home loan. I was so excited when Mark called with the news.

Jessica – member since "forever"

Members

We are 100% focused on providing a better financial future for our members and supporting the Australian education sector.

Helping the education sector

As a remote area service provider, it's important to us that our members have access to information and are able to speak to a financial expert when they need to. For many years, our school visits have helped us to build strong relationships and support the education sector. This year we appointed a designated Business Relationship Manager to each school on a regional basis. Given that teachers lead busy lives, our Business Relationship Managers will help make it easier for education staff to speak to us face to face, which provides a better banking experience.

Supporting new teachers

As a commitment to building our membership and ensuring that the teaching and education sector are supported, we introduced a 'New Teachers' program to assist those studying education or who have graduated from teaching studies within the last two years. This new program is tailored to their needs and offers low cost, easy banking options to help them.

Making banking easier

We believe that simple things can make a lot of difference to our members' lives. We are committed to delivering innovative solutions and are continuing to evolve in the mobile technology space, giving members more access channels and a greater overall banking experience.

Over the past 12 months we have:

Added PIN functionality to the rediATM network – This allows members to change their PIN at selected rediATMs that display the 'change PIN' option.

Launched smartphone payment technology to our Mobile Banking called Pay Anyone Mobile & Email – This allows members who are registered for Internet Banking to pay anyone simply by sending the money to the recipient's mobile phone or email address. This offers convenience and the ability for members to pay anyone, anywhere, anytime.

Won three *Money* magazine awards – In 2013 Teachers Mutual Bank won in the categories of Cheapest Credit Card (Bank), Best Transactor Credit Card (Bank) and Cheapest New Car Loan (Bank). Providing our members with award-winning products helps ensure that we stay competitive and enables members to maximise their financial health and wellbeing. *Money*, Australia's leading personal finance magazine, works with leading independent financial research group Canstar, to judge the awards. Every year *Money* magazine partners with the country's top research companies to identify the best products and services across more than 40 categories and we are pleased to have been awarded first place in three categories.

90% MEMBER SATISFACTION RATING

IN OUR MEMBER SATISFACTION SURVEY[5]

Employees

We strive to create an engaged workforce for all employees by providing a supportive, safe and professional workplace with opportunities for staff to fulfil their potential.

Our culture is clearly defined by education and we encourage and support our staff to further their education, develop a career path and maintain a healthy work/life balance. We have a strong reputation for genuinely caring for staff and attract and retain high quality employees with our flexible work practices, strong leadership programs, generous remuneration and attractive benefits. Our high Staff Satisfaction and Engagement Scores[6] of 88% are a reflection of this.

Mentoring and Coaching Program

In 2012, we introduced a mentoring and coaching program as part of our Talent Management Program. This was then extended to members of our Innovation and Leadership Committee. By formalising our mentoring and coaching initiatives, employees of Teachers Mutual Bank have been able to positively benefit by not only enjoying greater career prospects and personal development opportunities, but also through an expansion of their networks throughout the mutual industry.

Health & Wellbeing

During the year we were proud to launch our Mental Health at Work program supporting our commitment to developing leadership skills and providing innovative employee wellbeing initiatives. The program was designed to provide leaders with a deeper understanding of the growing number of people presenting with mental health issues at work and provide them with the knowledge and tools to support employees suffering from mental illness. All Teachers Mutual Bank leaders attend the program.

Australian HR Awards Finalist

We were finalists once again at the 2012 Australian HR Awards, this time in the category of 'Best CSR Strategy'. This award celebrates Australia's most outstanding corporate social responsibility program from a 'people-perspective' and demonstrates that sustainability is an integral part of Teachers Mutual Bank's day-to-day operations and workplace culture.

Our staff retention rate of over 92% is one of the highest within the Banking, Insurance and Financial Services sector.

Financial Services Executive of the Year

During the year, our Chief Sales & Marketing Officer, Theresa Mason, was recognised as the 'Financial Services Executive of the Year' at the CEO Magazine Awards in 2012. Theresa, who has worked with us for over 25 years, was instrumental in leading the successful campaign to rebrand from Teachers Credit Union to Teachers Mutual Bank and subsequently introduce the 'new face of banking' in Australia.

Financial Services Student of the Year

Our Traineeship Program is going from strength to strength with one of our Trainees, Ashley Foley, being recognised as the 'Student of the Year' by the Institute of Financial Services. Ashley received one of the highest marks in Australia for her completion of the Certificate IV in Banking Services as part of successfully completing the first year of her Financial Services Traineeship.


AWARDS
The CEO Magazine's
2012
EXECUTIVE OF THE
AWARDS
BENTLEY
SYDNEY
CHIVAS REGAL
2012
EXECUTIVE OF THE YEAR
AWARDS

MY MEMORABLE MOMENT

When I saw the first payment in my account it was a huge relief. It's allowed me to put food on my plate and focus purely on my studies.

Ryan – Future Teacher Scholarship recipient

Community

We are passionate about education and invest in a diverse range of activities for teachers and the education sector to help them flourish.

We believe that we have a responsibility to support the communities in which we conduct our business. By giving back to the education sector, we are supporting our existing and future members and their families. This is good for the community and good for business.

We measure and benchmark our total community investment using the London Benchmarking Group (LBG) framework. In the 2012-2013 financial year we invested 4.2% of pre-tax profits in the community.

Helping teachers reach their full potential through professional development is a major focus of our investment. We collaborate with a wide range of education community partners and provide financial support through sponsorships, partnerships, grants, scholarships, donations and charities including:

- over 100 teacher development conferences;
- Schools Spectacular, NSW;
- WA Education Awards;
- NSW Premier's Teachers Scholarship;
- The Public Education Foundation; and
- launching *'Burbangana – Take hold of my hand and help me up'*, a book which celebrates the success of Sydney Aboriginal education.

Future Teacher Scholarships

We are passionate about assisting education students pursue their dreams of becoming teachers. Our annual $5,000 Future Teacher Scholarships currently assist seven university students, who are studying to become teachers.

Myanmar Teachers' project

This Credit Union Foundation Australia (CUFA) partnership (a cooperatives based foundation) is designed to help break the poverty cycle in Myanmar, formerly known as Burma. Instead of just giving funds to teachers, the CUFA-developed program is set up as a sustainable model that ensures the whole community benefits and the capital is not eroded.

As a Platinum Sponsor in partnership with the Queensland and Victorian Teachers Mutual Banks, the project uses the interest from community loans to pay teachers' salaries, and is both improving children's education, and helping local businesses flourish.

Stewart House fundraiser

We have been a big supporter of Stewart House for more than 40 years because we believe that you, our members, value the incredible work they do with children. From our December 2012 fundraising appeal, our members' donations are set to deliver an additional and incredible $27,000 a year to Stewart House through regular pledges of $5 and upwards.

SINCE 2009 WE HAVE DISTRIBUTED $140,000 IN FUTURE TEACHER SCHOLARSHIPS TO 28 TEACHERS ACROSS NSW, ACT, NT AND WA

Environment

We use resources wisely to help protect the needs of future generations.

As an online bank with a remote area services model, our direct environmental impacts are relatively low in relation to other sectors.

We are committed to continually addressing our environmental impact and taking practical steps to minimise and optimise our use of environmental resources, particularly in the buildings that we own.

Highlights include:

- Switching 100% of our office paper to certified carbon neutral paper.
- Reducing our greenhouse gas emissions by 18%.
- Reducing our waste by 9%.

TO DATE WE HAVE PROVIDED

$312,000

in Teachers Environment Fund grants to over 100 schools, TAFEs and CITs.

We support eco projects in schools and colleges with the Teachers Environment Fund.

Since launching in March 2008, we have provided $312,000 in grants to over 100 schools, TAFEs and CITs.

Through the Teachers Environment Fund, we are helping teachers to promote sustainability through practical learning experiences.

We want to support programs that give teachers practical ways to embed sustainability into students' thinking – and hopefully have some fun along the way.

Two school projects include:

The Pocket Public School – This included creating an environment for local native flora by planting and installing a frog pond which included nesting boxes and a camera monitoring system. This whole community project allowed the school students to dig holes, choose a pond, plant fauna and place rocks around the pond. The pond allows the students to monitor the visits of native fauna to the playground.

Blaxland Public School – This included an Eco Day which taught students about looking after the environment – both now and in the future. During the day, students also planted a native garden and participated in other activities which showed them how their actions can affect the environment and how they can make a positive difference. Presenters included a local native bee expert, an Indigenous Discovery ranger from the National Parks and Wildlife Service and a team from Bunnings who helped the school community start work on its native garden and frog pond. Children also learnt how to make scarecrows.

MY MEMORABLE MOMENT

Seeing how much fun the children had during our Eco Day. The activities definitely increased their understanding and appreciation for their natural environment, and has added to their sense of community and pride in their school.

Blaxland Public School, Teachers Environment Fund recipient 2013

MY MEMORABLE MOMENT

When I lost my credit card. You immediately made my card inactive and assured me no unauthorised transactions had occurred. I was extremely pleased with your service and assurance.

Mary – member since 2006

Sustainability key performance indicators (KPIs) and targets

Sustainability is a core business value, and to fully embed it across the business, we have revised our business targets and KPIs to ensure that we continually improve our performance and results.

Key Performance Indicators	2012-13	2011-12	2010-11
Overall			
Corporate Responsibility Index (CR Index) overall score[2]	Gold, 90%	Bronze, 79%	–
Members			
Member satisfaction rating	90%[5]	90%	89%
CANSTAR Member Valuation – against the four major banks[7]	N/A	$288.86	$423.75
Mobile offices and business centres held	47	62	57
Home loan and investment seminars held	35	37	34
Formal complaints received by external bodies	15	14	8
Members assisted through the Credit Assistance service	108 members	140 members	217 members
Community			
Total community investment Percentage of net profits before tax (NPBT)	$1,349,000[8] 4.2%	$755,600	$791,555
School visits	1712	1490	1340
Conferences supported	110	115	109
Employee fundraising	$17,711	$17,623	$23,860
Environment			
Paper recycled	33.4 tonnes	44 tonnes	29 tonnes
Waste generated Per full-time employee (FTE)	61.9 tonnes 155 kg	68 tonnes 171 kg	70 tonnes 175 kg
Greenhouse gas emissions	1,759 tonnes	2,150 tonnes	2,509 tonnes
Toner cartridges recycled	168 kg	320 kg	298 kg
Water consumed per FTE	17,881 litres	13,732 litres	12,045 litres
Employees			
Percentage of females in management	44%	37.5%	37.5%
Employee satisfaction[5]	88%	86%	83%
Staff engagement rating[5]	88%	85%	84%
Employee turnover rate	7.16%	10.56%	4.94%
Employees currently studying	24.28%	22%	23%
Study leave days granted	231.5	238	366
Worker compensation claims	7	13	13
Staff satisfaction with workplace health & safety (WH&S)	96%	91%	94%
Average lost time incident rate (in days)	12.2	9.7	4.3

Results on our targets

1. Sustainable business practices

<table>
<tr><th>Targets</th><th>Results</th></tr>
<tr><td>Achieve a minimum Silver rating in the 2013 CR Index</td><td>We exceeded our target and achieved a Gold rating (90%) in April 2013, up from Bronze (79%) in 2012.
• We received a perfect score in 72% of our answers, and in the 15 main categories, more than half of our scores were higher than the entire 107 Member CR Index.
• We received a perfect score of 100% for Corporate Strategy, which 'rewards companies for placing Corporate Responsibility values at the core of their business strategy' and that 'companies must be able to demonstrate leadership and commitment at the highest level'.
• We scored 85% in the Environment Index Performance.</td></tr>
<tr><td>Achieve >90% and above the sector average in the Workplace section of the CR Index</td><td><table>
<tr><th>Score</th><th>Workplace management</th><th>Employee development</th><th>Corporate wellness and engagement</th></tr>
<tr><td>Teachers Mutual Bank</td><td>92%</td><td>93%</td><td>82%</td></tr>
<tr><td>CR Index companies average</td><td>90%</td><td>90%</td><td>80%</td></tr>
<tr><td>CR Index finance sector average</td><td>82%</td><td>79%</td><td>71%</td></tr>
</table></td></tr>
<tr><td>Benchmark and report our community investment using the London Benchmarking Group methodology</td><td>We joined the LBG and reported in November 2012. We spent 4.2% of NPBT on community investment, making us a global leader. This is 10 times higher than the LBG Australia/New Zealand benchmark average and 10.5 times higher than the financial services sector average.</td></tr>
<tr><td>All staff, Grade 6 and above, have sustainability KPIs in their performance plans</td><td>100% of managers and Grade 6 employees have sustainability KPIs in their performance assessments.</td></tr>
<tr><td>Review and improve sustainability training and education available to employees</td><td>100% of staff have received some form of education on sustainability, particularly via the staff intranet and training system. Sustainability training is being reviewed.</td></tr>
<tr><td>Assign Board responsibilities for sustainability</td><td>Steve James, Chief Executive, represents sustainability issues on the Board and sustainability is a monthly Board agenda item.</td></tr>
<tr><td>Launch a revised Sustainability Policy and review annually</td><td>Our revised Sustainability Policy was published in October 2012. It is a substantial renewal of our commitment to sustainability - it has 70 itemised points and references 28 supporting policies. The policy outlines how we implement sustainability on a day-to-day basis through our policies, procedures and practices, and how we deliver on our responsibilities and commitments.</td></tr>
<tr><td>Sustainability embedded into business policies, practices and decision making</td><td>We have set this as the main sustainability goal in our Strategic Business Plan.</td></tr>
<tr><td>Revise and launch a new Sustainability Committee Charter</td><td>This was launched in November 2012 and is published online at tmbank.com.au/sustainability.</td></tr>
<tr><td>Undertake a stakeholder mapping exercise and implement a revised stakeholder engagement plan</td><td>A stakeholder audit and analysis plan was agreed to by the Corporate Social Responsibility (CSR) committee and is being carried out.</td></tr>
<tr><td>Establish mechanisms for two-way sustainability dialogue with stakeholders</td><td>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. We are also expanding our engagement with external stakeholders.</td></tr>
<tr><td>Survey key suppliers on how they incorporate CSR issues into their products, services and management practices

Increase the purchase of more sustainable products and services and develop a sustainable print and paper policy

Introduce sustainability criteria into specific requests for proposals and contracts

Actively research and trial more sustainable products with third-party verification e.g. Forest Stewardship Council (FSC), Fairtrade Certified</td><td>We have established specific sustainability criteria across our office equipment, information technology equipment, paper and print production, as well as our vehicles.

All our office paper is certified 100% carbon neutral. Our sustainability contract with our paper and print supplier has strict sustainability guidelines, notably:
• FSC certification is standard, with maximum FSC 100% recycled post-consumer waste;
• the use of ECF or EECF technologies only;
• the use of vegetable oils and dyes only;
• zero products from old-growth forests;
• EMS or ISO system at place of production; and
• acceptable labour and workplace practices.</td></tr>
<tr><td>Maintain a zero toleranceculture for corruption and fraud</td><td>We practise effective operational risk management and maintain a culture of awareness.</td></tr>
</table>

2. Members

Targets	Results
Achieve member satisfaction ratings at or above 90%	In the national Roy Morgan poll conducted monthly on bank customer satisfaction, Teachers Mutual Bank has consistently achieved a score above 90% for the last 12 months – significantly higher than the scores achieved by the major banks.
Improve CANSTAR Member Valuation	Member valuation is currently being prepared for 2012/2013.
Improve member retention rates	Attrition rates reduced by 12.5%.
Reduce number of complaints received by external bodies each year	This was not achieved. Complaints increased from 14 to 15.
All complaints responded to within 1 business day	We successfully responded to all complaints within 1 business day.
Achieve best practise for all complaints resolved within 14 days	97% of complaints were resolved within the 14-day time frame.
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.
Zero breaches of the *Privacy Act 1988* (Cth)	There was one privacy breach.
Host external events for members	We held 87 events.
Visit members' workplaces	We visited 1,712 schools.
>90% of members to feel that they have adequate access to banking services	These results will be measured in November 2013.
>90% of members to feel that they have adequate access to information and assistance	These results will be measured in November 2013.
100% of marketing campaigns complying with responsible marketing guidelines	All marketing campaigns are developed in line with our rules of responsible marketing and the relevant industry codes and regulations.
Zero breaches of responsible marketing guidelines	There were three breaches relating to false and misleading advertising.
Assist members in financial difficulty	142 members were assisted with our Financial Assistance Programme.

3. Community

Targets	Results
Maintain our minimum commitment of 3% of net profits after tax (NPAT) invested in sustainability initiatives	We improved our sustainability reporting in line with the London Benchmarking Group (LBG), which measures total community investment. In November 2012 the LBG Index was measured as $1.35 million, or 4.2% of NPBT, which is equivalent to 6% NPAT.
Provide financial support for the education community via sponsorship and donations Prioritise collaboration with the various Departments of Education in NSW, ACT, WA and NT Foster effective relationships with the education community Enhance the professional development of teachers via the support of teacher conferences and events	• Our community investment is $1.35 million - this is our total contribution to the community, including cash, time and in-kind donations, as well as management costs. • We sponsor and support a wide range of Department of Education activities, including the Schools Spectacular and the WA Education Awards. • 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 over 100 professional conferences and events.
Continue to be a leading corporate sponsor of Stewart House	We continue to be a corporate sponsor and our members appeal created additional income through regular pledges of $5 and upwards from salary donations.
Assist poverty alleviation in Asia Pacific via Platinum Sponsorship of CUFA	We continue to be a Platinum Sponsor and launched the Myanmar Teachers Project. In June 2013 in partnership with the Queensland and Victorian Teachers Mutual Banks. The project will benefit 22 schools, 157 teachers and 5,495 school children.
Improve our support for indigenous education initiatives	In conjunction with the Department of Education and Communities (DEC) in the Sydney region, we supported the book, *'Burbangana – Take hold of my hand and help me up'*, which offers a vibrant insight into the accomplishments of Aboriginal students in public education in inner Sydney. Aboriginal students in Sydney public schools are *'closing the achievement gap'* despite sometimes having to overcome significant challenges.
Provide Teachers Environment Fund grants for sustainability in schools	We funded 25 schools which have 19,000 school children and 1,458 teachers.
Financially assist student teachers with Future Teachers Scholarships	We gave grants to seven students in March 2013.
Fund the NSW Premier's Teachers Mathematics Scholarship	We funded a scholarship for mathematics teacher Mark Liddell, who conducted a study tour of the USA, Europe and Brazil researching Project-Based Learning.
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. We ran 4 charity days over the year.

Results on our targets

4. Employees

Targets	Results
Maintain employee satisfaction rating at or above 85%	In 2013, TMB achieved an employee satisfaction rating of 88%.
Maintain employee engagement at or above 80%	In 2013, TMB achieved an employee engagement rating of 88%. This is one of our highest results ever and is considered world's best practice.
Achieve employee engagement rating above global average for financial services industry	The current global average for the financial services sector sits between 50%-70%. TMB is currently at 88%.
Minimum 85% of employees recommending TMB as a good place to work	91% of staff have indicated that they would recommend TMB as a place to work through annual staff survey and exit interview data received.
Maintain staff turnover at least 10% below industry average	Total staff turnover was 7.16%. The current industry average for financial services is 24.5%.
Minimum 20% of staff engaged in studying	The average percentage of staff studying was 24.3%. There were also 231.5 study leave days granted.
All employees to complete annual performance reviews	100% of all applicable staff completed an annual performance review.
All employees to complete annual development plans	100% of all applicable staff completed an annual development plan.
Continue to develop and implement policies and procedures that reflect best practice in employee relations	We are continually implementing human relations (HR) policies and procedures that reflect best practice. An area in which we excelled was our amendments to our Workplace Health and Safety Program and Enterprise Bargaining Agreement.
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 tolerence policy.
Exceed the ASX average of the percentage of females in Board, executive and management positions	We are currently represented by a 44% contingent of female directors. The Australian Stock Exchange national average for females on boards is 12.3%.
Be recognised as an employer of choice for women by the Equal Opportunity for Women in the Workplace Agency	For the fifth year running, we maintained our status as an Employer of Choice for Women.
Continue to develop and implement diversity, discrimination and flexible working guidelines for recruitment, training and promotion	This is an ongoing process which we intend to uphold. Agreed new programmes include a Mature Age Workforce Strategy and new Talent Management Program.
Reduce the lost time incident rate (LTIR) (in days)	Our LTIR is 12.2 days, compared to the industry average of 35.01 days.
Maintain staff satisfaction with WH&S at or above 85%	Staff satisfaction with WH&S was 96% - the highest it has been since 2010.
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.

5. Environment

Targets	Results
Improve data collection processes for energy, waste, water, paper and supply chain	We have improved our process of centralised data collection with our suppliers in particular. We are undertaking a greenhouse gas inventory and audit.
Engage and train employees on sustainable office practices	We implemented improved processes for a centralised ordering system for office materials and marketing products.
Buy a minimum of 10% renewable electricity for owned-buildings	We met this target, and are undertaking a review of our energy impact and the available solutions.
5% reduction in HQ energy/GHG emissions to 2013, and 10% by 2015	Energy consumption at out Homebush office reduced 3% over 2012 and the year before, energy consumption reduced 24%. This office uses 67% of our total electricity use. The AC upgrade, designed to improve energy consumption, was not completed in 2013. Greenhouse gas emissions from electricity consumption at TMB reduced 18% to 1,759 tonnes, reflecting improved operations and reporting.
Implement new staff engagement programmes to save energy	This will be implemented when the air conditioning upgrade is completed, as this changes the way the air conditioning is controlled by staff.
All new cars purchased for our fleet to achieve at least a 3.5 star rating in the Green Vehicle Guide	This target has been met for new cars.
Introduce new technology and processes to reduce paper wastage and improve efficiency	We have introduced a centralised paper supplier system for office and marketing use with our suppliers Finsbury Green and Staples.
Implement revised sustainable print and paper policy	See 'Sustainable business practises' on page 19.
Increase the number of members receiving online statements/ newsletters	We have reduced our physical mail out of Chalkboard magazine by 55,096 copies which is equivalent to 40% of all readers.
25% reduction in head office water use by 2013	We have not measured the final consumption, though water use in total increased at TMB. We plan to review this data.
Reduce total waste to landfill on 2011	Total waste generated was reduced 9% to 61.9 tonnes.
Improve our recycling programme for printers, toners, IT, e-waste, phones, paper and cardboard	We started a review of suppliers and the implementation of an office-wide recycling system that covers 6 waste streams.

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 employee and member surveys, 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 London Benchmarking Group (LBG) is the internationally recognised standard for measuring and evaluating a corporation's community investment. 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. For more information see www.bitc.org.uk. 3. These are prestigious industry awards in our banking sector. Abacus is the industry body for the Australian mutual financial services sector, a strong alliance of 120 mutual building societies, credit unions, mutual banks and friendly societies with combined assets of $85 billion. 4. Awarded by the *Asia-Pacific Banking & Finance Magazine*, this award recognises companies who demonstrate environmental protection, respect for human rights, the continuing improvement of employment and work relations conditions, social commitment, responsibility attitudes with suppliers and customers as well as transparency and effectiveness of corporate governance. 5. This research was conducted by Galileo Kaleidoscope (GALKAL), an independent Australian strategy and research company with over 15 years' experience. 6. Staff engagement and satisfaction scores were taken from Teachers Mutual Bank's annual staff survey results, which were conducted externally by Quantum Management Consultants. 7. This 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. 8. We have switched our measurement of community investment to the London Benchmarking Group (LBG). LBG is the internationally recognised standard for measuring and evaluating a corporation's community investment.

Directors' report

Your Directors present their report on Teachers Mutual Bank Limited for the financial year ended 30 June 2013.

The bank is a company registered under the Corporations Act (Cth) 2001.

Information on Directors

The names of the Directors in office at any time during or since the end of the year are:

John Kouimanos (Chair)

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 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 Chair)

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 Chair in 2009. Mrs Green is Chair 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), GAICD

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 and is a Council Member of the University of Technology, Sydney and 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 Justice of the Peace. She is Chair of the Audit, Risk and Compliance Committee and a member of the Board Remuneration Committee.

Tony FitzGerald (Director) B. Ec, Fellow of FINSIA, JP

Tony FitzGerald has nearly 40 years' experience in the financial services sector. Currently he is the non-executive Chair of Colonial First State Global Asset Management's Credit Committee, the asset management division of the Commonwealth Bank of Australia. He is also a member of the Board Finance Committee of the Royal Australasian College of Physicians, a member of the Investment Committee of UniSuper and a member of the Investment Advisory Committee of Altius Asset Management. He brings to the Board extensive experience in credit and risk management, having held senior roles in Australia, Europe, Asia and the U.S. Tony FitzGerald retired from the Board of Directors in May 2013.

Jennifer Leete (Director) BA, Dip. Ed

Jennifer Leete commenced teaching in 1977. Her last teaching position was as Head Teacher Social Sciences at Narrabeen High School. She became an organiser for the NSW Teachers Federation in 1989 and was the Deputy President of the Federation from 1998 to 2005. Ms Leete was elected as a Director in October 2005. She is Chair of the Development and Education Committee, and a member of the Board Nominations Committee and 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 October 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 Audit, Risk and Compliance Committee and Development and Education Committee. Also, he is Chair 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 is currently the Chief Risk Officer of Magellan Financial Group. Previously he was the Global Deputy of Risk Management & Compliance for direct assets at the consolidated asset management division of 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. Connuil is the Deputy Chair of the Audit, Risk and Compliance and a member of the Large Exposure Committees.

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

Maree O'Halloran is currently Director (CEO) of the Welfare Rights Centre, where she also practises as a solicitor. The Welfare Rights Centre advocates for and assists 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, and served as a director of Teachers Federation Health and the SAS Trustee Corporation. She is a member of 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) BEc, BEd, Grad Dip Acct, FFTA, MAICD

Michael O'Neill is an experienced senior executive 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 audit with KPMG. Mr O'Neill joined the Board of Directors in May 2013 and 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 credit union movement, including participating on many national credit union committees, developing his understanding and appreciation of the environment of credit unions and banks. He is committed to ensuring Teachers Mutual Bank maintains its high level of member service, employee satisfaction, and financial performance.

Brad Hedgman (Deputy Chief Executive Officer and Company Secretary)

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 a diverse range of 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 Teachers Mutual Bank's strength and success. In his current role he remains committed to the unique environment of 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.

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

[1] Tony FitzGerald resigned in May 2013.

[2] Michael O'Neill was appointed to the Board in May 2013.

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

Total Board of Directors meetings: 17

Board of Directors meetings attended by:	A	B
John Kouimanos	17	17
Linda Green	17	17
Tyrone Carlin	17	17
Michelene Collopy	13	17
Tony FitzGerald [1]	12	13
Jennifer Leete	16	17
Graeme Lockwood	17	17
Connuil McEvedy	15	17
Maree O'Halloran	16	17
Michael O'Neill [2]	3	4

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		Development and Education		Large Exposures		Marketing and Member Relations Strategy		Nominations	
	A	B	A	B	A	B	A	B	A	B	A	B
Total meetings		4		4		3		2		4		1
John Kouimanos			4	4			2	2				
Linda Green			4	4	3	3			4	4		
Tyrone Carlin	4	4					1	2	-	2		
Michelene Collopy	4	4	3	4								
Tony FitzGerald [1]	4	4					2	2				
Jennifer Leete					3	3			3	4	1	1
Graeme Lockwood	4	4			3	3					1	1
Connuil McEvedy	4	4					1	2				
Maree O'Halloran									4	4		
Michael O'Neill [2]	-	-					-	-				

A Number of meetings attended. **B** Number of meetings entitled to attend. 1 Tony FitzGerald resigned in May 2013. 2 Michael O'Neill was appointed to the Audit, Risk and Compliance Committee and Large Exposure Committee in May 2013. 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 $28.1 million (2012 $23.1 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

Michelene Collopy,
Chairperson of Audit,
Risk and Compliance Committee

Signed and dated this 13th September 2013

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 2013 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
13th September 2013

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 2013, 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 AUDIT PTY LTD
Chartered Accountants

N Sinclair

Neville Sinclair
Partner - Audit & Assurance

Sydney, 13 September 2013

Grant Thornton

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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 2013, 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.

Electronic presentation of audited financial report

This auditor's report relates to the financial report of Teachers Mutual Bank Ltd for the year ended 30 June 2013 included on Teachers Mutual Bank Ltd's web site. The Company's Directors are responsible for the integrity of Teachers Mutual Bank Ltd's web site. We have not been engaged to report on the integrity of Teachers Mutual Bank Ltd's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

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 2013 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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N. Sinclair

Neville Sinclair
Partner - Audit & Assurance

Sydney, 13 September 2013

Financial statements

Notes to the financial statements

Statement of comprehensive income

For the year ended 30 June 2013		Note(s)	2013 $'000	2012 $'000
Interest revenue		2a	233,186	249,372
Interest expenses		2c	(133,964)	(159,299)
Net interest income			99,222	90,073
Fee, commission and other income		2b	20,719	21,344
Sub-total			119,941	111,417
Less:	Non-interest expenses			
	- Impairment losses on loans and advances	2d	(2,226)	(2,528)
	General administration	2e		
	- Employees compensation and benefits		(41,875)	(39,603)
	- Depreciation and amortisation		(4,695)	(4,387)
	- Transaction expenses		(10,562)	(10,768)
	- Information technology		(6,841)	(5,838)
	- Office occupancy		(2,777)	(2,805)
	- Other administration		(11,315)	(13,038)
Total general administration			(78,065)	(76,439)
Total non-interest expenses			(80,291)	(78,967)
Profit before income tax			39,650	32,450
Income tax expense		3	(11,552)	(9,362)
Profit after income tax			28,098	23,088
Other comprehensive income				
	Net movement on cash flow hedge *(will be reclassified subsequently to profit or loss when specific conditions are met)*	20	(50)	(14)
Total comprehensive income			28,048	23,074

Statement of changes in member equity

For the year ended 30 June 2013	Capital reserve $'000	General reserve for credit losses $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total members' equity $'000
Total as at 1 July 2011	405	18,821	-	270,926	290,152
Total comprehensive income for the year – as reported	-	-	(14)	23,088	23,074
Dividends paid and provided	-	-	-	-	-
Sub-total	405	18,821	(14)	294,014	313,226
Transfers to (from) reserves	63	2,055	-	(2,118)	-
Total as at 30 June 2012	468	20,876	(14)	291,896	313,226
Balance as at 1 July 2012	468	20,876	(14)	291,896	313,226
Total comprehensive income for the year – as reported	-	-	(50)	28,098	28,048
Dividends paid and provided	-	-	-	-	-
Sub-total	468	20,876	(64)	319,994	341,274
Transfers to (from) reserves	46	(7,167)	-	7,121	-
Total as at 30 June 2013	514	13,709	(64)	327,115	341,274

Statement of financial position

For the year ended 30 June 2013	Note(s)	2013 $'000	2012 $'000
Assets			
Cash on hand and deposits at call		45,939	123,187
Receivables from financial institutions	4	634,326	507,481
Derivative assets	5	-	22
Receivables	6	13,597	15,694
Prepayments		2,159	1,622
Loans and advances to members	7 & 8	3,351,556	3,081,729
Available for sale investments	9	4,383	4,383
Property, plant and equipment	10	26,849	24,533
Taxation assets	11	5,977	5,631
Intangible assets	12	3,826	3,455
Total assets		4,088,612	3,767,737
Liabilities			
Wholesale sector deposits	13	184,885	51,089
Retail deposits	14	3,519,666	3,373,762
Derivative liabilities	5	71	37
Creditors, accruals and settlement accounts	15	23,467	12,813
Taxation liabilities	16	3,319	2,713
Provisions	17	15,930	14,097
Total liabilities		3,747,338	3,454,511
Net assets		341,274	313,226
Member equity			
Capital reserve account	18	514	468
General reserve for credit losses	19	13,709	20,876
Cash flow hedge reserve	20	(64)	(14)
Retained earnings		327,115	291,896
Total members' equity		341,274	313,226

Statement of cash flows

For the year ended 30 June 2013	Note(s)	2013 $'000	2012 $'000
Cash flows from operating activities			
Interest received		232,781	256,065
Fees and commissions		17,902	17,046
Dividends received		800	942
Other non-interest income received		490	1,869
Interest paid on deposits		(136,957)	(159,085)
Borrowing costs		(15)	(45)
Expenses paid to suppliers and staff		(70,423)	(71,101)
Income tax paid		(11,283)	(10,348)
Net increase in loans and advances to members		(270,590)	(308,270)
Net increase in retail deposits		160,890	272,258
Net cash flows from operating activities	34b	(76,405)	(669)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(5,809)	(4,544)
Acquisition of intangible assets		(1,523)	(1,880)
Sale of property, plant and equipment		123	585
Increase/(decrease) in deposits with other financial institutions		(126,845)	(169,663)
Net cash flows used in investing activities		(134,054)	(175,502)
Cash flows from financing activities			
Increase/(decrease) in wholesale sector deposits		133,211	(45,722)
Net cash flows from (used in) financing activities		133,211	(45,722)
Net increase/(decrease) in cash held		(77,248)	(221,893)
Add opening cash brought forward		123,187	345,080
Closing cash carried forward	34a	45,939	123,187

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 30 June 2013. The report was authorised for issue on 13 September 2013, 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 those of 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 the 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 the 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: Loan 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 65% of the balance held in the Balance Offset Savings Account for that day.

Green loans: Payments received under the Australian Government Green Loans Program are recognised as interest upon receipt.

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 the 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.

Fees on loans

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

Repo securitisation trust consolidation

The bank has created 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:

- The trust meets the definition of a controlled entity; and
- 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 has changed during the year to a Probability of Default and Loss Given Default approach from a fixed percentage of the aggregate of all drawn on statement financial position loans, redraw rights attached to loans paid in advance and irrevocable credit commitments model.

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); and
- 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 and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

h. Receivables from financial institutions

Term deposits and Negotiable Certificates of Deposit (NCDs) are unsecured and have a carrying amount equal to their purchase price. Interest is paid on the daily balance at maturity. All deposits are in Australian dollars. 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 remeasured 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 being 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, are 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 dollars.

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.

Mortgage breaker accounts

Savings balance is offset against the loan account 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 services rendered by employees to the balance date. Employee entitlements expected to be settled within one year, liability for termination of employment contracts and entitlements arising from wages, salaries and annual leave including annual leave loading have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee entitlements expenses and revenues arise in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee entitlements are charged against profits on a net basis in their respective categories

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 and 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 being 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 is 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 as 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 and 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 the 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 the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

t. Accounting estimates and judgements

Management has made judgements 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. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published by the Australian Accounting Standards Board (AASB) that are not mandatory for 30 June 2013 reporting periods. The bank's assessment of the impact of these new standards and interpretations is set out below.

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 1 January 2015	Adoption is only mandatory for the 31 December 2015 year end, the entity has not yet made an assessment of the impact of these amendments.
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	When this standard is first adopted for the year ending 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not derecognise special purpose entities. 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 would be no change to the reported balances under consolidation.
AASB 13 Fair Value Measurement issued September 2012	Currently, 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 are 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	When this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2014. When this standard is adopted for the first time on 1 July 2014, additional disclosures will be required about fair values.
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 OCI rather than in profit or loss, and cannot be reclassified in subsequent periods; Subtle amendments to timing for recognition of liabilities for termination benefits ; and 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 entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2013. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 July 2013, and a corresponding increase in retained earnings at that date.

2. Income statement

a. Interest revenue

Interest revenue	2013 $'000	2012 $'000
Cash - deposits at call	3,061	6,168
Receivables from financial institution deposits	23,947	30,133
Loans and advances to members	206,092	213,069
Derivatives interest income	50	2
Other	36	-
Total interest revenue	233,186	249,372

b. Non-interest revenue

Fee and commission revenue	2013 $'000	2012 $'000
Loan fee income - other than loan origination fees	2,464	2,116
Other fee income	5,666	6,017
Insurance commissions	4,405	3,799
Other commissions	5,308	5,230
Total fee and commission revenue	17,843	17,162

Other income		
Dividends received on available for sale assets	800	942
Bad debts recovered	1,066	989
Gain on disposal of assets:		
- Property, plant and equipment	123	585
Transfers from provisions:		
- Impairment losses on loans and advances	397	339
- Sick Leave	-	103
Miscellaneous revenue	490	1,224
Total non-interest revenue	20,719	21,344

c. Interest expenses

	2013 $'000	2012 $'000
Overdraft	13	45
Short-term borrowing	2	-
NCDs issued	3,940	50
Wholesale deposits	821	2,150
Retail deposits	129,169	157,042
Derivatives interest expense	19	10
Other	-	2
Total interest expenses	133,964	159,299

d. Impairment losses

	2013 $'000	2012 $'000
Bad debts written off directly against profit	2,226	2,528
Total impairment losses	2,226	2,528

e. Prescribed expense disclosures

Employee costs include:	2013 $'000	2012 $'000
Personnel costs	37,123	35,247
Superannuation contributions	2,968	2,787
Net movement in provisions for employee annual leave	225	323
Net movement in provisions for employee long service leave	1,516	1,246
Net movement in provisions for employee sick leave	43	-
Sub-total	41,875	39,603

f. Prescribed expense disclosures *(continued)*

Depreciation and amortisation expense comprises	2013 $'000	2012 $'000
Buildings	560	549
Plant and equipment	2,695	2,424
Leasehold improvements (including lease make good provisions)	170	165
Written down value of assets disposed	141	542
Intangible assets - computer software	1,129	707
Sub-total	4,695	4,387

Auditor's remuneration (excluding GST)		
Audit and review of financial statements:		
- Auditors of Teachers Mutual Bank - Grant Thornton	149	50
- Other auditors - BDO	-	91
Other services:		
- Other services – other auditors - BDO	2	4
Sub-total	151	145

Other operating expenses		
Transaction expenses	10,562	10,768
Information technology	6,841	5,838
Office occupancy	2,777	2,805
Net movement on provision for director development	4	28
Other administration	11,160	12,865
Sub-total	31,344	32,304

Total general administration	78,065	76,439

3. Income tax expense

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

	2013 $'000	2012 $'000
Provision for income tax - current year	12,138	9,343
Under (over) provision in prior years	(160)	133
Decrease (increase) in the deferred tax asset	(426)	(114)
Income tax expense attributable to profit	11,552	9,362

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

	2013 $'000	2012 $'000
Profit	39,651	32,451
Prima facie tax payable on operating profit before income tax at 30%	11,895	9,735
Add: - Tax effect of expenses not deductible	65	61
Less: - Tax effect of income not assessable	(3)	(213)
Sub-total	11,957	9,583
Add (less): - Adjustment to recognise deferred tax assets at 30%	422	41
Less: - Franking rebate	(241)	(281)
Current income tax provision attributable to profit	12,138	9,343

c. Franking credits

	2013 $'000	2012 $'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	127,748	116,532

4. Receivables from financial institutions

	2013 $'000	2012 $'000
Negotiable certificates of deposit held	611,225	487,481
Term deposits	8,000	20,000
Other	15,101	-
Total receivables from financial institutions	634,326	507,481

5. Derivative financial instruments

The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or the credit risk. Fair value measurement is classified as Level 2 in the fair value hierarchy with the methodology and the basis for valuation is explained in Note 22b

	2013 $'000		2012 $'000	
Derivatives used as cash flow hedges	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	-	71	22	37

Net movement on derivatives during the year	2013 $'000	2012 $'000
Recognised in interest income	(5)	(1)
Charged to comprehensive income	(50)	(14)
Total	(55)	(15)

Notional principal amounts and period of expiry of the interest rate swap contracts	2013 $'000			2012 $'000		
	Pay Fixed	Receive Fixed	Notional Amount	Pay Fixed	Receive Fixed	Notional Amount
Within 1 year	20,000	-	20,000	-	8,000	8,000
>1 to 2 years	2,000	-	2,000	-	-	-
>2 to 3 years	-	-	-	2,000	-	2,000
Total	22,000	-	22,000	2,000	8,000	10,000

6. Receivables

	2013 $'000	2012 $'000
Interest receivable on deposits with other financial institutions	10,698	10,392
Sundry debtors and settlement accounts	2,899	5,302
Total receivables	13,597	15,694

7. Loans and advances

a. Amount due comprises

	2013 $'000	2012 $'000
Overdrafts and credit cards	99,600	98,951
Term loans	3,254,751	2,985,895
Overdrawn savings	122	177
Sub-total	3,354,473	3,085,023
Add: - Amortised loan origination fees	(1,271)	(1,250)
Sub-total	3,353,202	3,083,773
Less: - Provision for impaired loans as detailed in Note 8	(1,646)	(2,044)
Total loans and advances to members	3,351,556	3,081,729

b. Credit quality - security held against loans

	2013 $'000	2012 $'000
Secured by mortgage over real estate	3,043,913	2,758,125
Partly secured by goods mortgage	66,569	74,147
Wholly unsecured	243,991	252,751
Total	3,354,473	3,085,023

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%	2,136,639	1,935,326
- Loan to valuation ratio of more than 80% but mortgage insured	768,186	669,654
- Loan to valuation ratio of more than 80% and not mortgage insured	139,088	153,145
Total	3,043,913	2,758,125

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.

This information was derived from the bank's records of Direct Entry receipts.

Balance of loans held by memberships who are receiving payments from:	2013 $'000	2012 $'000
NSW Department of Education and Communities	1,519,705	1,450,852
State Super Financial Services	100,508	83,117
ACT Department of Treasury	69,616	62,599
Catholic Education Office	46,005	39,588

Number of memberships with loans who are receiving payments from:	2013 Number	2012 Number
NSW Department of Education and Communities	18,627	19,388
State Super Financial Services	2,860	2,601
ACT Department of Treasury	623	603
Catholic Education Office	411	403

For the purposes of this note, membership includes both shareholding and non-shareholding members
Figures for the 2012 financial year have been restated, recognising the multiple supplier numbers of the broader NSW Department of Education and Communities. This has not impacted on the Financial Statements.

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

	2013 $'000				2012 $'000			
	Housing	Personal	Business	Total	Housing	Personal	Business	Total
NSW	2,781,728	776,090	20,512	3,578,330	2,561,825	735,792	21,651	3,319,268
Victoria	29,085	12,215	-	41,300	26,060	9,814	-	35,874
Queensland	63,968	18,302	-	82,270	56,446	18,282	-	74,728
South Australia	4,778	1,852	-	6,630	4,915	1,858	-	6,773
Western Australia	137,365	26,199	-	163,564	89,568	18,654	-	108,222
Tasmania	6,019	1,629	-	7,648	5,592	1,526	-	7,118
Northern Territory	11,507	4,009	-	15,516	11,293	3,745	-	15,038
ACT	142,664	29,743	-	172,407	132,530	25,476	-	158,006
Other	-	224	-	224	106	3,504	-	3,610
Total	3,177,114	870,263	20,512	4,067,889	2,888,335	818,651	21,651	3,728,637

Loans by purpose	2013 $'000	2012 $'000
Housing loans and facilities	3,177,113	2,888,335
Personal loans and facilities	870,263	818,651
Total-households	4,047,376	3,706,986
Business loans and facilities	20,512	21,651
Total	4,067,888	3,728,637

8. Provision on impaired loans

a. Total provision comprises

	2013 $'000	2012 $'000
Collective provision	1,625	2,036
Individual specific provision	21	8
Total provision	1,646	2,044

b. Movement in the provision for impairment

	2013 $'000	2012 $'000
Balance at the beginning of year	2,044	2,383
Add (deduct); - Transfers from (to) statement of comprehensive income	(398)	(339)
Balance at end of year	1,646	2,044

c. Impaired loans written off

	2013 $'000	2012 $'000
Amounts written off directly to expense	2,226	2,528
Total bad debts	2,226	2,528
Bad debts recovered in the period	1,066	989

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

In the Note below:

- Carrying value is the amount of the statement of financial position.
- Impaired loans value is the 'on-statement of financial position' loan balances and includes non-accrual loans and restructured loans stated in Note 1b.
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.

	2013 $'000			2012 $'000		
Loans to members	Carrying value	Value of impaired loans	Provision for impairment	Carrying value	Value of impaired loans	Provision for impairment
Housing	2,775,598	8,751	34	2,547,687	6,305	343
Personal	458,826	3,000	880	422,492	3,003	860
Credit Card	69,824	1,445	596	68,198	1,590	698
RediCredit	29,749	246	135	30,733	294	141
Total-households	3,333,997	13,442	1,645	3,069,110	11,192	2,042
Business	20,476	1	1	15,913	2	2
Total	3,354,473	13,443	1,646	3,085,023	11,194	2,044

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

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

	2013 $'000		2012 $'000	
	Carrying value	Provision	Carrying value	Provision
Less than 30 days	1,983	5	1,322	8
30 to less than 90 days in arrears	2,957	4	1,535	-
90 to less than 182 days in arrears	3,826	366	3,802	327
182 to less than 273 days in arrears	1,838	327	994	256
273 to less than 365 days in arrears	907	180	678	297
365 days and over in arrears	377	59	1,067	319
Overdrawn savings/overlimit facilities over 14 days	1,555	705	1,796	837
Total	13,443	1,646	11,194	2,044

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 all collateral as at the balance date due to the variety of assets and condition.

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

There are loans with a value of $4.010 million past due which are not considered to be impaired and where payments of principal and/or interest are at least 30 days in arrears. Full recovery of both principal and interest is expected. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

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

	2013 $'000				2012 $'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	2,299	313	-	2,612	3,048	1,818	210	5,076
Personal	771	217	-	988	750	138	-	888
Credit Card	166	25	-	191	177	74	-	251
RediCredit	199	20	-	219	197	38	-	235
Total	3,435	575	-	4,010	4,172	2,068	210	6,450

g. Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report, the bank has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the bank is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time, resulting in higher or lower impairment losses. An estimate is based on the period of impairment as per Australian Prudential Guidance Note AGN 220.3 Prescribed Provisioning.

9. Available for sale investments

Value of shares in unlisted companies, at cost	2013 $'000	2012 $'000
- Cuscal Limited (Cuscal)	4,382	4,382
- Q.T. Travel Pty. Ltd. (Diploma Travel)	47	52
Total value of investments	4,429	4,434
Less: - Provisions for amortisation - Q.T. Travel Pty. Ltd. (Diploma Travel)	(46)	(51)
Total available for sale investments	4,383	4,383

Disclosures on shares held at cost

a. Cuscal Limited (Cuscal)

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. 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 – refer to Note 21. The shares are able to be traded. No trades with a disclosed price occurred over the year.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be readily determined .

The bank is not intending 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 measured at cost as its fair value could not be measured reliably. Diploma Travel is operated for the bank's members and their families. The original purchase price has been amortised to $1,001 to recognise the shares are held not for their investment value but for the ongoing service to members. The shares are not able to be traded and are not redeemable.

10. Property, plant and equipment

	2013 $'000	2012 $'000
Land, at cost	8,850	6,782
Buildings, at cost	22,728	22,129
Less: - Provision for depreciation	(12,321)	(11,763)
Net building	10,407	10,366
Total land and buildings	19,257	17,148
Plant and equipment, at cost	23,264	25,083
Less: - Provision for depreciation	(15,801)	(17,916)
Sub-total	7,463	7,167
Capitalised leasehold improvements, at cost	934	869
Less: - Provision for amortisation	(805)	(651)
Sub-total	129	218
Total property, plant and equipment	26,849	24,533

Movement in the asset balances during the year

2013 $'000	Property	Plant and equipment	Leasehold improvement	Total
Opening balance	17,148	7,167	218	24,533
Purchases	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

2012 $'000				
Opening balance	17,443	5,876	350	23,669
Purchases	254	4,254	36	4,544
Less: - Assets disposed	-	(539)	(3)	(542)
Less: - Depreciation charge	(549)	(2,424)	(165)	(3,138)
Closing balance	17,148	7,167	218	24,533

11. Taxation assets

Deferred tax assets comprise	2013 $'000	2012 $'000
Accrued expenses not deductible until incurred	168	163
Provisions for impairment on loans	533	673
Provisions for employee benefits	4,723	4,163
Provisions for other liabilities	104	108
Depreciation on fixed assets	224	162
Prepaid loan expenses	31	62
Amortisation of intangible assets	78	104
Deferred tax assets	5,861	5,435

Other tax debtor		
GST debtor	31	98
Land tax	85	98
Total taxation assets	5,977	5,631

12. Intangible assets

	2013 $'000	2012 $'000
Computer software, at cost	9,736	8,236
Less: - Provision for amortisation	(5,910)	(4,781)
Total intangible assets	3,826	3,455

Movement in the assets balances during the year

Opening balance	3,455	2,282
Purchases	1,500	1,880
Less: - Amortisation charge	(1,129)	(707)
Balance at the end of the year	3,826	3,455

13. Wholesale sector deposits

	2013 $'000	2012 $'000
Negotiable certificates of deposit issued	184,885	24,940
Wholesale deposits	-	26,149
Total wholesale sector deposits	184,885	51,089

14. Retail deposits

a. Retail deposits

	2013 $'000	2012 $'000
At call	1,487,245	1,340,940
Term	2,030,843	2,031,257
Member withdrawable shares	1,578	1,565
Total retail deposits	3,519,666	3,373,762

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 the total liabilities, are set out below. This information was derived from the bank's records of direct entry receipts.

Balance of accounts held by depositors who are receiving payments from	2013 $'000	2012 $'000 Restated
State Super Financial Services	868,099	656,069
NSW Department of Education and Communities	622,208	764,818

Number of depositors who are receiving payments from	2013 $'000	2012 Number Restated
State Super Financial Services	12,009	8,848
NSW Department of Education and Communities	36,469	40,155

Figures for the 2012 Financial Year have been restated, recognising the multiple supplier numbers of the broader NSW Department of Education and Communities and amending certain double counted members receiving multiple payments on NSW Department of Education and Communities supplier numbers. This has not impacted on the Financial Statements.

iii) **Geographical concentrations**

	2013 $'000	2012 $'000
NSW	3,271,995	3,143,966
Victoria	31,812	26,804
Queensland	54,673	55,628
South Australia	9,411	8,282
Western Australia	25,077	22,310
Tasmania	10,297	9,979
Northern Territory	7,496	6,144
ACT	63,028	62,622
Other	44,299	36,461
Total	3,518,088	3,372,196

15. Creditors, accruals and settlement accounts

	2013 $'000	2012 $'000
Creditors and accruals	21,723	11,298
Unearned income	929	883
Settlement accounts	815	632
Total creditors, accruals and settlement accounts	23,467	12,813

16. Taxation liabilities

	2013 $'000	2012 $'000
Current income tax liability	3,003	2,297
Accrual for other tax liabilities	316	416
Total taxation liabilities	3,319	2,713
Current income tax liability comprises		
Balance from the previous year	2,297	3,144
Less: - Paid	(2,137)	(3,277)
Over (under) statement in prior year	160	(133)
Liability for income tax in current year	12,217	9,410
Less: - Instalments paid in current year	(9,214)	(7,113)
Current income tax liability	3,003	2,297

17. Provisions

	2013 $'000	2012 $'000
Employee entitlements	15,670	13,885
Lease make good of premises	83	39
Provisions - other	177	173
Total provisions	15,930	14,097

Movement in other provisions during the year	2013 $'000 Director development	2012 $'000 Director development
Opening balance	173	145
Less: - Paid	(40)	(53)
Liability increase	44	81
Closing balance	177	173

18. Capital reserve account

	2013 $'000	2012 $'000
Opening balance	468	405
Transfer from retained earnings on share redemptions	46	63
Total capital reserve account	514	468

Share redemption

The accounts represent the amount of redeemable preference shares redeemed by the bank since 1 July 1999. The law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

19. General reserve for credit losses

	2013 $'000	2012 $'000
Opening balance	20,876	18,821
Increase (decrease) transfer from retained earnings	(7,167)	2,055
Total general reserve for credit losses	13,709	20,876

General reserve for credit losses

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 has changed during the year to a Probability of Default and Loss Given Default approach from a fixed percentage of the aggregate of all drawn on statement financial position loans, redraw rights attached to loans paid in advance and an irrevocable credit commitments model.

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

20. Cash flow hedge reserve

	2013 $'000	2012 $'000
Opening balance	(14)	-
Increase (decrease) transfer from retained earnings	(50)	(14)
Total cash flow hedge reserve	(64)	(14)

Cash flow hedge reserve

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit and loss consistent with the applicable 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 management of these risks, including its objectives, policies and processes for measuring and managing risks, in addition to the bank's management of its capital.

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 and 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 within business units and management, as well as at an assurance level through Internal Audit and Risk and Regulatory Services staff as well as through the Board and its 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 assists 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, and in certain cases approving, 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 managements; and
- growth.

Market risk

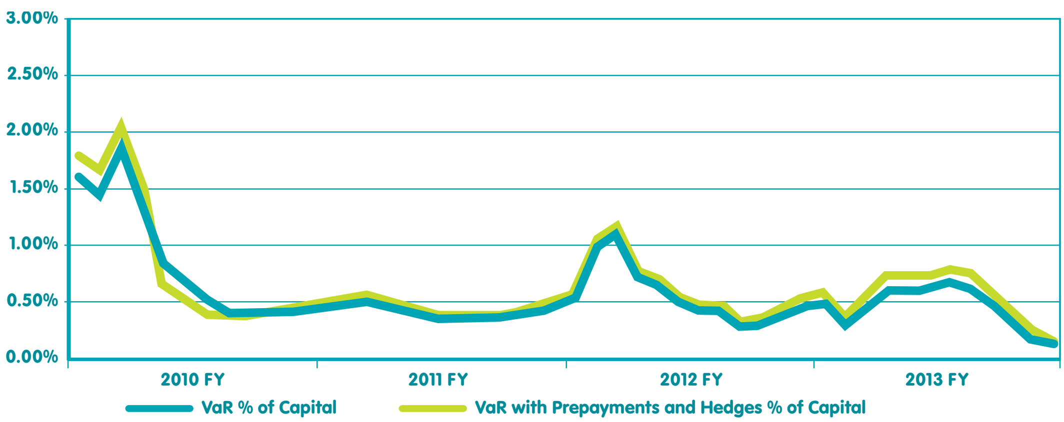
Interest rate risk

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; and
- annual benchmarking against industry.

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



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. The table set out at Note 25 displays the period that each asset and liability will reprice as at the balance date.

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 the 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.

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

The bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours under the Australian Prudential Standards. The bank risk appetite is to maintain at least 11% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, the management and Board have plans and procedures in place to address the matter and ensure that the 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 as at the balance date. The bank also maintains a self-securitisation capability. Note 34 details the balance of loans securitised to create repo-eligible securities.

'Total adjusted liabilities' for the purpose of this liquidity measurement, is defined as total on-statement of financial position liabilities (including equity) and irrevocable commitments, less the capital base defined in accordance with Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.

	2013	2012
Total adjusted liabilities	4,331,295,972	3,959,847,351
As at 30 June	15.36%	15.93%
Average for the year	16.19%	18.85%
Minimum during the year	14.69%	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 which may result in financial losses. Credit risk arises principally from the bank's loan book and investment assets.

Credit risk - lending

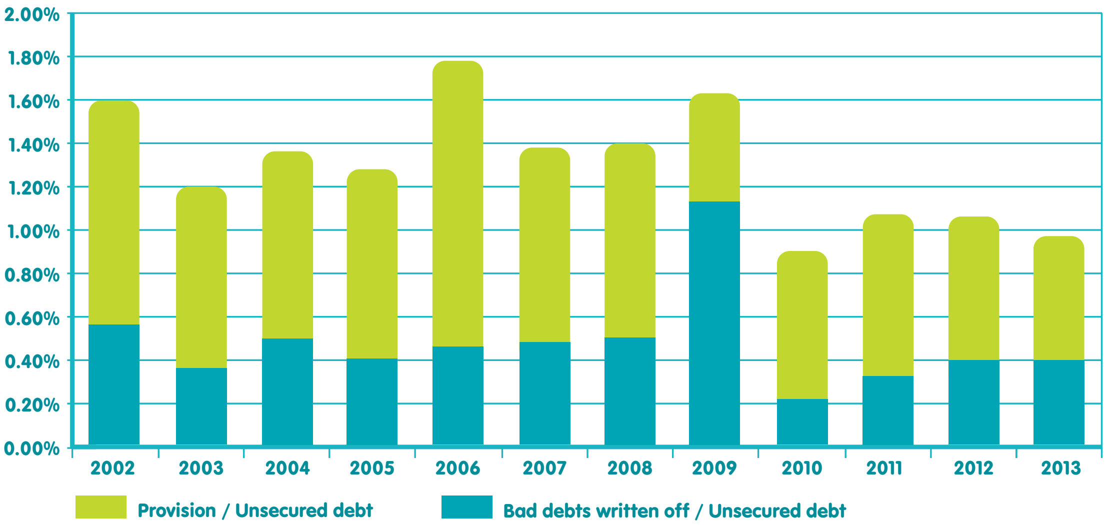
Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities, overdraft facilities and credit card limits). The details are shown in Note 27.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the 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. The geographic distribution is detailed in Note 7c.

Concentrations are described in Note 7c. The bank has a concentration of 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 the 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.

The method of managing credit risk is by way of adherence to the credit assessment policies before the loan is approved 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 creditworthy (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 on residential property in Australia. Therefore, we are exposed to risks of the reduction of the Loan to Value Ratio (LVR) should the property market be subject to a decline.

Performance of the Mortgage Secured portfolio is managed by monitoring the proportion of loan balances in arrears.

Percentage of mortgage portfolio in arrears

Credit risk – investing

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

Investments with:	No. of institutions	Carrying value	Past due value	Provision
				2013
ADIs-rated A-1+ or A-1 (short-term)	7	440,213,750	-	-
ADIs-rated AA or A+ (long-term)	-	3,000,000	-	-
ADIs-rated A-2 (short-term)	8	235,761,338	-	-
ADIs-rated A-3 (short-term)	-	-	-	-
Total	15	678,975,088	-	-

Investments with:	No. of institutions	Carrying value	Past due value	Provision
ADIs-rated A-1+ or A-1 (short-term)	6	455,350,859	-	-
ADIs-rated AA or A+ (long-term)	-	-	-	-
ADIs-rated A-2 (short-term)	7	160,732,221	-	-
ADIs-rated A-3 (short-term)	1	13,362,915	-	-
Total	14	629,445,995	-	-

Operational risk

Operational risk is the risk of loss resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the bank relate mainly to those risks arising from a number of sources including: 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 losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of polices and systems to monitor the likelihood of the events and minimise their impact:

- segregation of duties;
- documentation of policies and procedures, employee job descriptions and responsibilities;
- implementation of 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 has also been established to compare experience with the original assessments. Projects are also subject to risk analysis at all stages of the project lifecycle and are actively managed.

Business units and management have the responsibility for risk management with oversight by the Chief Risk Officer and the Risk and Regulatory Services Department, Internal Audit, the Audit Risk Compliance Committee and the Board.

Compliance

The bank has implemented 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 the 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 the Australian Prudential Standards as detailed in the table below.

On-statement of financial position exposures	Carrying value	Risk weighting	Risk weighted amount
Cash	1,289,801	-	-
Deposits in highly rated ADIs	457,565,763	20%	91,513,153
Deposits in less highly rated ADIs	221,409,325	50%	110,704,662
Standard loans secured against eligible residential mortgages up to 80% LVR (up to 90% with Lenders Mortgage Insurance)	2,493,091,372	35%	872,581,980
Standard loans secured against eligible residential mortgages over 80% LVR	517,354,443	50-75%	262,877,848
Other standard mortgage loans	9,270,718	100%	9,270,718
Non-standard mortgage loans	3,679,971	35-100%	2,622,612
Other loans	329,430,235	100%	329,430,235
Other assets	42,722,485	100%	42,722,485
Total	4,075,814,113		1,721,723,693

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	106,989,933	100%	106,989,933	35%-100%	53,363,963
Redraws available	347,417,838	50%	173,708,919	35%-100%	66,429,196
Guarantees	100	100%	100	100%	100
Unused revolving credit limits	259,007,654	-	-	-	-
Possible contribution to CUFSS	130,396,895	-	-	-	-
Total	843,812,420		280,698,952		119,793,259

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	20,000,000	-	-	-	-	-
Residual maturity > 1 year to 5 years	2,000,000	0.5%	10,000	-	10,000	2,000
Total	22,000,000		10,000	-	10,000	2,000
Total weighted credit risk exposures						1,841,518,952

Market risk

The mutual 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-10	30-Jun-11	31-Dec-11	30-Jun-12	31-Dec-12	30-Jun-13
Total gross outstanding loans and advances for retail banking	2,562,109,970	2,771,806,877	2,912,194,314	3,070,330,500	3,212,036,658	3,335,287,137
- multiplied by 3.5% scaling factor	89,673,849	97,013,241	101,926,801	107,461,568	112,421,283	116,735,050
- multiplied by 12% risk factor	10,760,862	11,641,589	12,231,216	12,895,388	13,490,554	14,008,206
Average of the 6 half-year results = Total operational risk capital requirement for retail banking						12,504,636

Operational risk capital requirement for commercial banking

	31-Dec-10	30-Jun-11	31-Dec-11	30-Jun-12	31-Dec-12	30-Jun-13
Total gross outstanding loans and advances for commercial banking	588,319,324	689,062,584	792,341,065	645,359,216	687,158,408	684,350,086
- multiplied by 3.5% scaling factor	20,591,176	24,117,190	27,731,937	22,587,573	24,050,544	23,952,253
- multiplied by 15% risk factor	3,088,676	3,617,579	4,159,791	3,388,136	3,607,582	3,592,838
Average of the 6 half-year results = Total operational risk capital requirement for commercial banking						3,575,767

Operational risk capital requirement for all other activity

	31-Dec-10	30-Jun-11	31-Dec-11	30-Jun-12	31-Dec-12	30-Jun-13
Adjusted gross income	2,111,070	3,401,488	2,030,846	3,906,064	2,075,673	3,722,777
- multiplied by 18% risk factor	379,993	612,268	365,552	703,091	373,621	670,100
Average of the 3 annual results = Total operational risk capital requirement for all other activity						1,034,875
Total operational risk capital requirement						17,115,278
Risk Weighted Asset (RWA) equivalent amount for operational risk capital requirement = Operational risk capital * 12.50						213,940,972
Total credit and operational risk weighted						2,055,459,924

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 by 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:	2013	2012
Tier 1 Common Equity	328,771,775	292,350,079
Less: - Prescribed deductions	(14,068,741)	(9,845,560)
Tier 1 capital	314,703,034	282,504,519
Tier 2 Reserve for credit losses	13,708,723	20,875,787
Less: - Prescribed deductions	-	(2,191,166)
Tier 2 capital	13,708,723	18,684,621
Total capital	328,411,757	301,189,140

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

2013	2012	2011	2010
15.98%	15.85%	15.65%	16.03%

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; and
  - 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

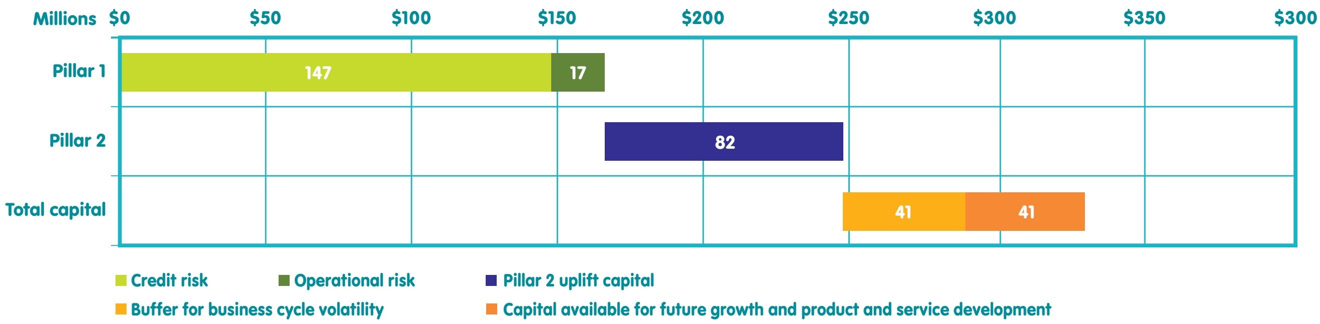
The bank manages its internal capital levels for both current and future activities through a combination of committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the bank's forecasts for asset 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	1,841,518,952	147,321,516	8.00%
Operational risk	213,940,972	17,115,278	8.00%
Total	2,055,459,924	164,436,794	8.00%
Pillar 2 uplift capital		82,218,397	4.00%
ICAAP capital required		246,655,191	12.00%
Buffer for business cycle volatility		41,109,199	2.00%
Capital available for future growth and product and service development		40,647,367	1.98%
Risk-based capital ratio		328,411,757	15.98%
Tier 1 capital ratio		314,703,034	15.31%
Tier 2 capital ratio		13,708,723	0.67%

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)	2013 $'000	2012 $'000
Cash on hand and deposits at call		45,939	123,187
Receivables from financial institutions	4	634,326	507,481
Receivables	6	13,597	15,694
Loans and advances to members	7 & 8	3,351,556	3,081,729
Total carried at amortised cost		4,045,418	3,728,091
Cash flow hedge derivative assets - carried at fair value	5	-	22
Available for sale investments - carried at fair value	9	4,383	4,383
Total financial assets		4,049,801	3,732,496
Financial liabilities - carried at amortised cost			
Wholesale sector deposits	13	184,885	51,089
Retail deposits	14	3,519,666	3,373,762
Creditors, accruals and settlement accounts	15	23,467	12,813
Total carried at amortised cost		3,728,018	3,437,664
Cash flow hedge derivative liabilities - carried at fair value	5	71	37
Total financial liabilities		3,728,089	3,437,701

b. Assets measured at fair value

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

	2012 $'000	Level 1	Level 2	Level 3
Cash flow hedge derivatives	22	-	22	-
Available for sale investments	4,383	-	-	4,383
Total	4,405	-	22	4,383

The fair value hierarchy has the following levels:

(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

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

Cash flow hedge derivatives

The fair value of derivative financial instruments (interest rate swaps) are calculated using discounted cash flow models which use 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 at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

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
Cash flow hedge derivative assets	-	-	-	-	-	-	-	-
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								
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
2012 Assets $'000								
Cash on hand and deposits at call	123,187	-	-	-	-	-	123,187	123,187
Receivables from financial institutions	45,824	347,041	114,616	-	-	-	507,481	507,481
Cash flow hedge derivative assets	1	-	39	-	-	-	40	22
Receivables	6,459	9,138	4,783	-	-	-	20,380	15,694
Loans and advances to members	38,791	77,032	338,397	1,152,634	4,099,740	-	5,706,594	3,081,729
Available for sale investments	-	-	-	-	-	4,383	4,383	4,383
Total financial assets	214,262	433,211	457,835	1,152,634	4,099,740	4,383	6,362,065	3,732,496
2012 Liabilities $'000								
Wholesale sector deposits	20,992	15,140	15,400	-	-	-	51,532	51,089
Retail deposits	1,609,261	840,314	756,220	211,118	-	1,983	3,418,896	3,373,762
Cash flow hedge derivative liabilities	3	-	7	50	-	-	60	37
Creditors, accruals and settlement accounts	12,813	-	-	-	-	-	12,813	12,813
Total financial liabilities	1,643,069	855,454	771,627	211,168	-	1,983	3,483,301	3,437,701

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

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represent the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of members and not able to be reliably estimated.

2013 Assets $'000	Within 12 months	After 12 months	Total
Cash on hand and deposits at call	45,939	-	45,939
Receivables from financial institutions	634,326	-	634,326
Cash flow hedge derivative assets	-	-	-
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
2012 Assets $'000			
Cash on hand and deposits at call	123,187	-	123,187
Receivables from financial institutions	507,481	-	507,481
Cash flow hedge derivative assets	22	-	22
Receivables	15,694	-	15,694
Loans and advances to members	252,579	2,832,444	3,085,023
Available for sale investments	-	4,383	4,383
Total financial assets	898,963	2,836,827	3,735,790
2012 Liabilities $'000			
Wholesale sector deposits	51,089	-	51,089
Retail deposits	3,177,326	196,436	3,373,762
Cash flow hedge derivative liabilities	37	-	37
Creditors	12,813	-	12,813
Total financial liabilities	3,241,265	196,436	3,437,701

25. Interest rate change profile of financial assets and liabilities

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date or maturity date.

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
Cash flow hedge derivative assets	-	-	-	-	-	-
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						
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
2012 Assets $'000						
Cash on hand and deposits at call	121,965	-	-	-	1,222	123,187
Receivables from financial institutions	45,824	347,041	114,616	-	-	507,481
Cash flow hedge derivative assets	22	-	-	-	-	22
Receivables	-	-	-	-	15,694	15,694
Loans and advances to members	2,712,573	36,589	122,865	212,832	164	3,085,023
Available for sale investments	-	-	-	-	4,383	4,383
Total financial assets	2,880,384	383,630	237,481	212,832	21,463	3,735,790
2012 Liabilities $'000						
Wholesale sector deposits	20,962	15,023	15,104	-	-	51,089
Retail deposits	1,608,508	832,553	736,265	194,453	1,983	3,373,762
Cash flow hedge derivative liabilities	37	-	-	-	-	37
Creditors, accruals and settlement accounts	-	-	-	-	12,813	12,813
On-statement of financial position	1,629,507	847,576	751,369	194,453	14,796	3,437,701
Undrawn loan commitments (Notes 27a, 27b and 27c)	643,613	-	-	-	-	643,613
Total financial liabilities	2,273,120	847,576	751,369	194,453	14,796	4,081,314

26. Fair value of financial assets and liabilities

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 as at the 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. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

			2013 $'000			2012 $'000
Assets	**Fair value**	**Book value**	**Variance**	**Fair value**	**Book value**	**Variance**
Cash on hand and deposits at call	45,939	45,939	-	123,187	123,187	-
Receivables from financial institutions	634,984	634,326	658	508,297	507,481	816
Cash flow hedge derivative assets	-	-	-	22	22	-
Receivables	13,597	13,597	-	15,694	15,694	-
Loans and advances to members	3,355,255	3,351,556	3,699	3,085,952	3,081,729	4,223
Available for sale investments	4,383	4,383	-	4,383	4,383	-
Total financial assets	4,054,158	4,049,801	4,357	3,737,535	3,732,496	5,039
Liabilities						
Wholesale sector deposits	184,896	184,885	11	51,117	51,089	28
Retail deposits	3,527,037	3,519,666	7,371	3,379,348	3,373,762	5,586
Cash flow hedge derivative liabilities	71	71	-	37	37	-
Creditors, accruals and settlement accounts	23,467	23,467	-	12,813	12,813	-
Total financial liabilities	3,735,471	3,728,089	7,382	3,443,315	3,437,701	5,614

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.

The fair value estimates were determined according to the methodologies and assumptions below.

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 receivables from other financial institutions. The rates applied to give effect to the discount of cash flows were 2.85%-3.64% (2012: 3.47%-4.34%).

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 4.89%-11.50% (2012: 5.68%-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 3.12%-3.38% (2012: 3.81%-4.24%).

Retail deposits: The rates applied to give effect to the discount of cash flows were 2.73%-4.40% (2012: 2.83%-5.13%).

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

	2013 $'000	2012 $'000
The loans approved but not funded	106,990	97,483

b. Loan redraw facilities

	2013 $'000	2012 $'000
The loan redraw facilities available	347,418	296,792

c. Undrawn loan facilities

Loan facilities available to members for overdrafts and credit cards are as follows:	2013 $'000	2012 $'000
Total value of facilities approved	358,495	348,170
Less: - Amount advanced	(99,487)	(98,832)
Net undrawn value	259,008	249,338

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:	2013 $'000	2012 $'000
Not later than one year	975	-
Total	975	-

e. Computer capital commitments

	2013 $'000	2012 $'000
Not later than one year	521	686
Total	521	686

f. Lease expenditure commitments

Operating leases on property occupied by the bank	2013 $'000	2012 $'000
Not later than one year	681	682
Later than 1 year but not 2 years	550	247
Later than 2 years but not 5 years	368	509
Over 5 years	-	43
Total	1,599	1,481

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

There are no restrictions imposed on the bank so as to limit the ability to undertake further leases or borrow funds.

28. Standby borrowing facilities

The bank has borrowing facilities with Cuscal as follows:

2013 $'000	Gross	Current borrowings	Net available
Overdraft facility	25,000	-	25,000
Total standby borrowing facilities	25,000	-	25,000
2012 $'000			
Overdraft facility	50,000	-	50,000
Total standby borrowing facilities	50,000	-	50,000

Cuscal holds an equitable mortgage charge over assets of the bank as security against loan and overdraft amounts drawn under the facility arrangements.

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 ADIs in the event of a liquidity or capital problem. As a member, the bank is committed to maintaining 3.2% of the 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 would be 3.2% of the bank's total assets (3% under loans and facilities plus 0.2% under the cap on contributions to permanent loans). This amount represents the participating Australian mutual ADI's irrevocable commitment under the ISC.

30. Disclosures on Directors and other key management persons

a. Remuneration of key management persons

Key management persons (KMPs) have authority and responsibility for planning, directing and controlling the activities of the bank, directly or indirectly, including any Director (whether executive or otherwise) of that entity. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMPs have been taken to comprise the Directors and the seven members of the executive management (2012 seven executives) who are responsible for the day-to-day financial and operational management of the bank.

The aggregate compensation of Directors and other KMPs during the year comprising amounts paid or payable or provided for was as shown in the table below.

					2013 $'000
Directors	**Short-term**	**Post-employment**	**Motor vehicle**	**Net increases in long service leave provision**	**Total**
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'Neill	9	1	-	-	10
M O'Halloran	57	8	-	-	65
Short-term employee benefits - other	8	-	-	-	8
Reimbursement to Employer	10	-	-	-	10
Total	545	115	21	-	681
Other KMPs	2,656	225	82	248	3,211

					2012 $'000 Restated
Directors	**Short-term**	**Post-employment**	**Motor vehicle**	**Net increases in long service leave provision**	**Total**
Short-term employee benefits					
J Kouimanos	27	44	21	-	92
L Green	58	5	-		63
T Carlin	46	4	-	-	50
M Collopy	26	30	-	-	56
A FitzGerald	16	36	-	-	52
J Leete	46	4	-	-	50
G Lockwood	47	4	-	-	51
C McEvedy	47	4	-	-	51
M O'Halloran	42	9	-	-	51
Short-term employee benefits – other	26	-	-	-	26
Reimbursement to Employer	8	-	-	-	8
Total	389	140	21	-	550
Other KMPs	2,437	256	70	133	2,896

In the above table, remuneration shown as short-term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out-of-pocket expense reimbursements.

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

Post-employment includes contributions to superannuation, incorporating those made under salary sacrifice arrangements.

Remuneration for the 2012 financial year has been restated as an error and has been detected where after-tax remuneration paid into a superannuation fund was included in both short-term and post-employment classifications. The total of Director's pay was overstated by $25,000. There was no impact on the financial statements.

b. Other transactions with related parties

The disclosures are made in accordance with AASB 124 and include disclosures relating to a financial institution policy for lending to related parties and, in respect of related party transactions, the amount included in:

- each of loans and advances, deposits and acceptances and promissory notes;
- each of the principal types of income, interest expense and commissions paid;
- the amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date; and
- irrevocable commitments and contingencies and commitments arising from off-statement of financial position items.

c. Loans to Directors and other KMPs

The bank's policy for lending to Directors and other KMPs is that all loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit. There are no loans which are impaired in relation to the loan balances with Directors or other KMPs.

There are no benefits or concessional terms and conditions applicable to close family members of KMPs. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMPs.

	2013 $'000			2012 $'000 Restated		
	Mortgage term loans	Other term loans	Revolving credit facilities	Mortgage term loans	Other term loans	Revolving credit facilities
Funds available to be drawn	845	13	172	670	1	166
Balance	2,427	35	50	3,656	50	41
Amounts disbursed or facilities increased in the year	-	-	25	888	-	-
Interest and other revenue earned	160	6	8	256	8	13

Other transactions between related parties include deposits from Directors and other KMPs:	2013 $'000	2012 $'000
Total value term and savings deposits from Directors and other KMPs	5,618	4,494
Total interest paid on deposits to Directors and other KMPs	242	237

The bank's policy for receiving deposits from Directors and other KMPs is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit.

Mortgage term loans, other term loans and revolving credit facilities for the 2012 financial year have been restated due to a presentation error. The funds available to be drawn and the amounts disbursed or facilities increased in the year were overstated by $650,000 and $4,346,000, respectively. There was no impact on the financial statements.

d. Transactions with other related parties

Other transactions between related parties include deposits from Director-related entities or close family members of Directors or other KMPs.

The bank's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit.

There are no benefits paid or payable to the close family members of the Directors or other KMPs.

There are no service contracts to which Directors or KMPs or their close family members are interested parties.

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 (2012: 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 as at 30 June 1992, being the date on which 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 staff members are in a defined benefit sub-plan in the NGS Super Plan.

Following the last full actuarial valuation dated 30 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 2013 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 as detailed below.

i. Securitised loans retained off-statement of financial position

Integris Securitisation Services Pty Limited (Integris) 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 that trust. The bank bears no risk exposure in respect of these loans. The bank receives a management fee to recover the costs of ongoing administration of processing the loan repayments and the issue of statements to members.

In addition, the bank is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year, the bank assigned nil loans (2012: $nil) to Integris. These loans qualify for derecognition on the basis that the assignment transfers all risks and rewards to Integris and there are no residual benefits to the bank. The bank receives a management fee to recover the costs of ongoing administration of processing the loan repayments and the issue of statements to members.

	2013 $'000	2012 $'000
Total amount of securitised loans under management	908	1,363

The values of above securitised loans qualify for derecognition since they meet the criteria in Accounting Standard AASB 139, whereby the bank assumes the contractual obligation to pay all cash flows it received on the loans to the trust, but 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 bank does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

ii. Securitised loans retained on-statement of financial position

EdSec Funding Trust No.1 has been established as a mechanism to enable borrowing from the Reserve Bank of Australia to occur.

The value of securitised loans that do not qualify for derecognition (as the conditions do not meet the criteria in the accounting standards) are set out below. All loans are variable interest rate loans, with the book value and fair value of the loans being equivalent.

	2013 $'000	2012 $'000
Total amount of securitised loans under management	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:	2013 $'000	2012 $'000
Cash on hand and deposits at call	45,939	123,187

b. Reconciliation of cash from operations to accounting profit

The net cash increase/(decrease) from operating activities is reconciled to the profit after tax	2013 $'000	2012 $'000
Profit after income tax	28,098	23,088
Add (less):		
- Provision for impairment and bad debts written off (net)	2,226	2,528
- Depreciation of property, plant and equipment	4,554	3,845
- Provision for employee entitlements	1,784	1,466
- Other provisions	(421)	(309)
- Loss on disposal of plant and equipment (net)	18	(43)
- Bad debts recovered	(1,066)	(989)
Changes in assets and liabilities		
- Prepaid expenses and sundry debtors	(458)	(10)
- Accrued expenses and sundry creditors	1,616	9
- Interest receivable	(305)	6,729
- Interest payable	(3,008)	167
- Other income receivable	(58)	(253)
- Unearned income	46	101
- Increases in loans and advances to members	(270,590)	(308,270)
- Increase in retail deposits	160,890	272,258
- Provision for income tax	694	(872)
- Deferred tax assets	(425)	(114)
Net cash flows from operating activities	(76,405)	(669)

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.

Need more information, we're here to help

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

tmbank.com.au

Registered office

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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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