QPCU LIMITED T/A QBANK

Annual Report 2016-17

QBANK

POLICE • FIRE • HEALTH • PUBLIC SERVICE • JUSTICE

Contents

QPCU LIMITED T/A QBANK
ABN 79 087 651 036
AFSL Number 241413
Australian Credit Licence Number 241413
30 June 2017

REGISTERED OFFICE
Level 1, 231 North Quay, Brisbane QLD 4000

POSTAL ADDRESS
PO Box 13003, George Street QLD 4003

Directors' Report

INFORMATION ON OFFICEHOLDERS

DARYLL MORTON (CHAIR)

BBus, GAICD

Non-Executive Director since 2015.

Mr Morton's former positions include senior business and risk roles with Citibank and Standard Chartered Bank across Asia Pacific; Consumer Bank Head, Hong Leong Group; and Managing Director, Permata Bank. Advisory roles included Global SME Strategy, Citibank; Global Head of Business Risk Review, Standard Chartered Consumer Bank; and currently, Head of SME and Risk, Sabre Advisors; and Board Member, Royal Queensland Golf Club.

Special responsibilities:

- Chair of the Board since November 2016
- Member of the Governance and Remuneration Committee
- Member of the Risk and Compliance Committee

RAY BROWNHILL (VICE CHAIR)

LLB, Grad Cert App Mgt, GAICD

Non-Executive Director since 2013.

Mr Brownhill is currently Inspector, Queensland Police Service; Director – Lives Lived Well (not for profit organisation); and Director – Valley Chamber of Commerce.

Special responsibilities:

- Chairman of the Governance and Remuneration Committee

JILLIAN STEINKAMP, APM

LLB, Grad Cert App Mgt, GAICD

Non-Executive Director since 2009.

Ms Steinkamp is a retired Inspector of the Queensland Police Service; former Executive Officer and former Secretary/Treasurer of the Queensland Police Commissioned Officers' Union of Employees; and former Branch Official of the Queensland Police Union of Employees. Currently, State Secretary of the Queensland Retired Police Association Inc.

Special responsibilities:

- Chair of the Board from November 2012 to November 2016
- Member of the Audit and Finance Committee

JOHN JUST, PSM

BBus, FCPA, FAICD

Non-Executive Director since 2010.

Mr Just was former Deputy Chief Executive (Resources Management) Queensland Police Service; former Director Finance Division Queensland Police Service; and current Chairman Sureplan Friendly Society Ltd.

Special responsibilities:

- Chairman of the Audit Committee

IAN LEAVERS

GAICD, JP (Qual)

Non-Executive Director since 2013.

Mr Leavers is currently General President and CEO - Queensland Police Union; current serving officer with Queensland Police Service; Director - WorkCover Queensland; and Vice-President – Police Federation of Australia.

Special responsibilities:

- Member of the Audit and Finance Committee

PAUL WILSON, APM

GAICD

Non-Executive Director since 2013.

Mr Wilson was former Assistant Commissioner – Queensland Police Service.

Special responsibilities:

- Member of the Risk and Compliance Committee
- Chair of the Nominations Committee

ANDY HENDERSON, APM

BA, GAICD

Non-Executive Director since 2014.

Mr Henderson was former Assistant Commissioner – Queensland Police Service; Current Director – Crime Stoppers (QLD); and Director – Mooloolaba Marina Limited.

Special responsibilities:

- Member of the Governance and Remuneration Committee
- Member of the Nominations Committee

DAN KEATING

BA, MPubAd, Grad Cert App Mgt, GAICD

Non-Executive Director since 2014.

Mr Keating was former Superintendent – Queensland Police Service; and former Senior Response and Recovery Liaison Officer – Queensland Reconstruction Authority (until March 2016).

Special responsibilities:
- Chair of the Risk and Compliance Committee

NEVILLE IDE

BBus, MCOM, FCPA, FAICD

Non-Executive Director since 2013. Ceased as Director 24 November 2016.

Mr Ide was Former Group Treasurer – Suncorp Metway Ltd; current Board Member – RACQ Insurance Ltd, Member of The Public Trust Office Investment Board; and Non Executive Director – SunWater Limited.

The name of the Company Secretary in office at the end of the year is:

JOSIE KING

B Com, LLB(Hons I), GradDip ACG, AGIA
Company Secretary

Company Secretary since June 2015.

Ms King is a qualified Company Secretary and solicitor with experience of Governance, Company Secretarial and Corporate and Commercial law. Ms King was formerly, the Company Secretary and Legal Counsel, Exoma Energy Limited and Group Legal Counsel of AWT International Limited. She is an associate member of the Governance Institute of Australia.

All directors and the company secretary have held their office from 1 July 2016 to the date of this report unless otherwise stated.

Directors' Meeting Attendance

Director	Board		Audit Committee		Board Committees	
	E	A	E	A	E	A
D Morton	13	13	2	2	5	5
R F Brownhill	13	12	-	-	5	5
J M Steinkamp	13	11	3	3	2	2
J C Just	13	13	5	5	-	-
I Leavers	13	13	5	3	-	-
P A Wilson	13	13	-	-	4	4
A Henderson	13	10	-	-	5	5
D Keating	13	13	-	-	4	4
N J Ide	5	3	-	-	2	2

E = Eligible to Attend A= Attended

Directors' Report

Your Directors present their report on the affairs of QPCU Limited (QBANK) for the financial year ended 30 June 2017.

Principal Activities

QPCU Limited trading as QBANK is an unlisted public company limited by shares, incorporated and domiciled in Australia. QBANK is a mutual bank operating as an Authorised Deposit-taking Institution ("ADI") regulated by APRA in accordance with the Banking Act 1959.

QBANK's membership common bond is principally any government employee resident in Queensland or persons engaged in an occupation principally concerned with the administration of justice and the protection of life and property. Activities have historically focused on the Queensland Police Service, the Queensland Ambulance Service, the Queensland Fire and Emergency Services and Queensland Corrective Services.

QBANK offers a full range of retail financial products and services to its members including deposits, investments, loans and transactional services. Through its partnerships, QBANK offers insurance, financial planning and other services to its members.

There was no significant change in these activities during the year.

Operating Results

The net profit of QBANK for the year after providing for income tax was $2.45m (2016: $2.46m).

Dividends

Dividends totalling $0.06m (2016: $0.11m) were declared and paid on 30,000 Tier 1 redeemable preference shares. Dividend payments are paid and reset quarterly as determined by Australian Mutual T1 Capital Funding Trust. The declaration and payment of dividends during the year were approved by resolutions of the Directors. No dividends have been paid or declared subsequent to year end.

Review of Operations

QBANK was granted approval from the Australian Prudential Regulatory Authority (APRA) to trade as a bank from 1 July 2016. This change was part of the strategy aimed at building long term sustainability and growth.

During the year QBANK was awarded five star ratings from Canstar for our Classic Home Loan, 3 Year Fixed Rate Home Loan and Bluey Credit Card products. These awards demonstrate QBANK's commitment to offering great value to members.

QBANK's profit for the year after income tax was $2.45m compared to $2.46m for the previous year. The result was characterised by continued home lending growth, lower net interest margin, strong credit quality and disciplined operating expense management. Excluding the previous year's $1.05m pre-tax gain on sale of investment properties, the profit after income tax for the year improved by $0.72m or 42.0% compared to the previous year.

Net Interest Income increased by $0.34m or 2.11% due mainly to an increase in the average balance of total loans and advances. This was partially offset by the adverse impact of two RBA cash rate decreases in mid-2016, to a historic low of 1.5%, and continued strong competition for home loans and retail deposits. As a result of these factors, QBANK's net interest margin decreased to 2.10% from 2.31% the previous year.

Other revenue and income decreased by $1.50m or 24.7% compared to the previous year due largely to the previous year's result including a $1.05m gain on sale of investment properties. The other main items that contributed to the decrease were lower rental income from QBANK's investment properties at 231 North Quay Brisbane, lower lending fees and reduced insurance related income.

Total operating expenses, excluding impairment losses, reduced $1.06m or 5.8% compared to the previous year. The reduction reflects disciplined expense management and a normalisation of expenses following a significant strategic investment in brand, information technology and marketing capabilities in previous years.

Impairment losses remained very low decreasing by $0.03m or 14.4% to $0.19m. This represents 0.03% of gross loans and advances and demonstrates the high quality of the bank's overall loan portfolio.

As a member-owned bank, retained earnings are QBANK's main source of capital. It is essential to ensure profits support asset growth, strategic investment requirements and a prudent level of capital. QBANK's total capital adequacy ratio increased from 18.56% to 19.22% during the year to remain comfortably above the minimum prudential standard requirements.

During the year, QBANK's assets increased by $13.9m or 1.72% primarily as the result of a $24.7m or 3.8% increase in loans and advances. Lower loan funding of $136m for the year, compared to $210m the previous year, was consistent with QBANK's strategic focus of pursuing sustainable profitable growth in a competitive environment characterised by intense competition and increasing regulation. The previous year's growth was boosted by QBANK's entry into the mortgage broker network.

Deposits increased by $17.8m or 2.5% compared to an increase of $146m and 25.8% the previous year. Retail deposit growth was $5.7m or 1.0% compared to $71.4m and 14.7% the previous year and wholesale funding growth was $11.6m or 7.8% compared to $73.6m and 97.0% the previous year. Lower retail deposit and wholesale funding growth is consistent with lower loans growth.

QBANK continued with its conservative approach to managing liquidity and funding risk with the high quality liquid asset ratio ending the year marginally lower at 15.6% compared to 15.9% the previous year.

A top-up of QBANK's internal securitisation vehicle was completed in February 2017 when $21.9m of mortgage secured loans were sold to the QPCU Heroes Trust and an additional $22.1m of notes were issued by the Trust to QBANK. The senior notes in the Trust are eligible for repurchase by the Reserve Bank of Australia and provide one way of managing unexpected future liquidity risks.

Significant Changes in State of Affairs

Apart from disclosures elsewhere in this report, there were no significant changes in the state of affairs of QBANK during the year.

Events Subsequent to the End of the Reporting Date

No other matters or circumstances have arisen since the end of the reporting date which have significantly affected or may significantly affect the operations, the results of those operations, or the state of affairs of QBANK in subsequent financial years.

Likely Developments and Results

QBANK will continue to pursue the principal activities providing a full range of retail financial products and services to its members.

QBANK's strategy remains centred on the achievement of sustainable profitable growth through maintaining strong relationships with and providing value to our members, leveraging investments in technology and capability, streamlining the business through improved efficiencies, growing the business to achieve scale whilst maintaining strong levels of capital, and building a high performance culture.

Consistent with this strategy, it is expected that underlying profitability will improve over the coming year as the result of the continued support from our members, moderate growth, increased capability and improved efficiency.

QBANK's activities expose it to a variety of financial and non-financial risks and management of these risks is critical to future prospects. The main risks faced by QBANK include credit risk, liquidity risk, funding risk, interest rate risk, operational risk and property risk. Further information on these risks and management approach adopted is disclosed in the notes to the financial statements. Other occurrences and developments that may influence future prospects include increasing regulation resulting in higher costs and restrictions on scope of operations, emerging technologies impacting market competitiveness, increasing competition from existing and/or new market entrants, and large unexpected disruptions to the economy.

Further information about strategies, developments and expected results for future financial years has not been included in this report because, in the opinion of the Directors, disclosure of the information is likely to result in unreasonable prejudice to QBANK.

Insurance and Indemnification of Officer or Auditor

Insurance premiums have been paid to insure each of the Directors and Officers of QBANK against any 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 QBANK. 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 auditor.

Options

No options over unissued shares or interests in QBANK were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No shares have been issued as a result of the exercise of an option.

Directors' Report

Regulatory Disclosures

The disclosures required by Australian Prudential Standard (APS) 330 Public Disclosures (namely the Reconciliation of Regulatory Capital and Audited Financial Statements, Common Disclosure Template in accordance with Attachment A, and Main Features of Capital Instruments in accordance with Attachment B) are available on the website of QBANK (**www.qbank.com.au/about-us/regulatory-disclosures**).

Details of QBANK's remuneration policies and processes, and quantitative disclosures for senior managers, material risk takers and risk management personnel required under APS 330 Public Disclosure, are available on the website of QBANK (**www.qbank.com.au/about-us/regulatory-disclosures**).

Proceedings

No person has applied for leave of the Court to bring proceedings on behalf of QBANK or interfere in any proceedings to which QBANK is a party for the purpose of taking responsibility on behalf of QBANK for all or part of those proceedings. QBANK was not a party to any such proceedings during the year.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2017 forms part of this report and a copy of this declaration is attached.

Environmental Regulation

QBANK's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or a State or Territory.

Rounding of Amounts

The amounts contained in the financial statements and the Directors' Report have been rounded to the nearest one thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Parent Entity and Group are permitted to round to the nearest one thousand dollars ($'000) for all amounts except prescribed disclosures that are shown in whole dollars.

Signed for and on behalf of the Directors in accordance with a resolution of the Board

Daryll Morton
Chairman

Ray Brownhill
Vice Chairman

Signed and dated this 26th day of October 2017.

BDO

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DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF QPCU LIMITED

As lead auditor of QPCU Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

T M Kendall

T J Kendall

Director

BDO Audit Pty Ltd

Brisbane, 26th October 2017

QPCU LIMITED T/A QBANK

Financial Statements

30 JUNE 2017

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

QBANK

POLICE • FIRE • HEALTH • PUBLIC SERVICE • JUSTICE

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (For the year ended 30 June 2017)

	Note	2017 $'000	2016 $'000
Interest income	2.1	32,408	31,307
Interest expense	2.2	(15,989)	(15,227)
Net interest income		**16,419**	**16,080**
Other income	2.3	4,571	6,070
Impairment loss on loans and advances	3.2(c)	(186)	(217)
Employee benefits expense	2.4	(7,370)	(7,691)
Occupancy expense		(923)	(1,196)
Depreciation and amortisation expense	2.4	(1,019)	(956)
Other expenses	2.4	(8,053)	(8,582)
Profit before income tax		**3,439**	**3,508**
Income tax expense	**2.5**	**(987)**	**(1,046)**
Profit for the year		**2,452**	**2,462**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net changes in the fair value of cash flow hedges		121	21
Income tax relating to this item	2.5(c)	(36)	(6)
Other comprehensive income for the year, net of income tax		**85**	**15**
Total comprehensive income for the year		**2,537**	**2,477**

The accompanying notes should be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION (as at 30 June 2017)

	Note	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents	4.1(a)	25,281	28,434
Other receivables		1,484	1,420
Income tax receivable		198	242
Financial assets at amortised cost	4.2(b)	96,681	103,637
Financial assets at fair value through other comprehensive income	4.2(a)	2,397	2,397
Loans and advances	3.1	675,703	651,023
Property, plant and equipment	7.1	7,071	7,459
Investment properties	7.2	9,356	9,356
Intangible assets	7.3	689	710
Other assets		736	1,024
Total assets		**819,596**	**805,702**
Liabilities			
Deposits	4.3	728,528	710,744
Other payables	7.4(a)	2,184	2,591
Borrowings	4.4(a)	12,290	15,157
Deferred tax liabilities	2.5	1,995	1,988
Derivatives	4.5	90	211
Provisions	7.4(b)	466	513
Total liabilities		**745,553**	**731,204**
Net assets		**74,043**	**74,498**
Equity			
Tier 1 Redeemable Preference Shares	5.1	-	2,930
Redeemed preference share capital account		365	338
Reserves		5,311	5,220
Retained earnings		68,367	66,010
Total equity		**74,043**	**74,498**

The accompanying notes should be read in conjunction with these financial statements.

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

STATEMENT OF CHANGES IN EQUITY (For the year ended 30 June 2017)

	Note	Tier 1 Red Pref Share Capital $'000	Red Pref Share Capital Account $'000	Asset Revaluation Reserve $'000	Reserve for Credit Losses $'000	Cashflow Hedge Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 30 June 2015		**2,930**	**330**	**5,479**	**1,317**	**(162)**	**62,238**	**72,132**
Comprehensive income for the year								
Profit for the year		-	-	-	-	-	2,462	2,462
Other comprehensive income							-	
- Net changes in cash flow hedges, net of tax		-	-	-	-	15	-	15
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**15**	**2,462**	**2,477**
Transfers								
- Reserve for credit losses		-	-	-	252	-	(252)	-
- Redeemed preference share capital		-	8	-	-	-	(8)	-
Reserve for property now sold		-	-	(1,681)	-	-	1,681	-
Total transfers		**-**	**8**	**(1,681)**	**252**	**-**	**1,421**	**-**
Transactions with owners in their capacity as owners								
Dividends paid		-	-	-	-	-	(111)	(111)
Total transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**	**(111)**	**(111)**
Balance at 30 June 2016		**2,930**	**338**	**3,798**	**1,569**	**(147)**	**66,010**	**74,498**

The accompanying notes should be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY (For the year ended 30 June 2017)

	Note	Tier 1 Red Pref Share Capital $'000	Red Pref Share Capital Account $'000	Asset Revaluation Reserve $'000	Reserve for Credit Losses $'000	Cashflow Hedge Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 30 June 2016		**2,930**	**338**	**3,798**	**1,569**	**(147)**	**66,010**	**74,498**
Comprehensive income for the year								
Profit for the year		-	-	-	-	-	2,452	2,452
Other comprehensive income								
- Net changes in cash flow hedges, net of tax		-	-	-	-	85	-	85
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**85**	**2,452**	**2,537**
Transfers								
- Reserve for credit losses		-	-	-	6	-	(6)	-
- Redeemed preference share capital		-	27	-	-	-	(27)	-
Total transfers		**-**	**27**	**-**	**6**	**-**	**(33)**	**-**
Transactions with owners in their capacity as owners								
Dividends paid		-	-	-	-	-	(62)	(62)
Shares redeemed		(2,930)	-	-	-	-	-	(2,930)
Total transactions with owners in their capacity as owners		**(2,930)**	**-**	**-**	**-**	**-**	**(62)**	**(2,992)**
Balance at 30 June 2017		**-**	**365**	**3,798**	**1,575**	**(62)**	**68,367**	**74,043**

The accompanying notes should be read in conjunction with these financial statements.

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

STATEMENT OF CASH FLOWS (For the year ended 30 June 2017)

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Interest received		32,408	31,307
Dividends received		143	83
Fees and commissions received		3,789	4,255
Interest paid		(15,480)	(14,316)
Payments to suppliers and employees		(17,116)	(17,791)
Income taxes paid		(973)	(1,222)
Other income		1,038	1,360
Net movement in financial assets at fair value through other comprehensive income		-	(103)
Net movement in financial assets at amortised cost		6,956	(31,746)
Net movement in loans and advances		(24,887)	(103,480)
Proceeds/(payments) - borrowings		(2,868)	39
Net movement in deposits		17,274	145,026
Net cash provided by/(used in) operating activities	**4.1(b)(iii)**	**284**	**13,412**
Cash flows from investing activities			
Net movement in other assets		156	(108)
Payments for property, plant and equipment		(180)	(141)
Proceeds from sale of property, plant and equipment, and intangibles		43	2,052
Payments for intangibles		(464)	(438)
Net cash used in investing activities		**(445)**	**1,365**
Cash flows from financing activities			
Repayments of shares		(2,930)	-
Dividends paid		(62)	(111)
Net cash used in financing activities		**(2,992)**	**(111)**
Total net increase/(decrease) in cash and cash equivalents		**(3,153)**	**14,666**
Cash and cash equivalents at the beginning of the financial year		**28,434**	**13,768**
Cash and cash equivalents at the end of the financial year	**4.1(b)(i)**	**25,281**	**28,434**

The accompanying notes should be read in conjunction with these financial statements.

NOTE 1: BASIS OF PREPARATION

1.1 CORPORATE INFORMATION

The financial statements of QPCU Limited T/A QBANK (referred to as "the Company" or "the ADI" or "Parent Entity" or "QBANK") and its subsidiaries (referred to as "the group") for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of directors on 26 October 2017.

The registered office and principle place of business of the company is Level 1, 231 North Quay, Brisbane, QLD 4000.

The principal activities of the group during the year comprised of offering a full range of retail financial products and services to its members including deposits, investments, loans and traditional services.

1.2 BASIS OF PREPARATION

(a) Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, the Corporations Act 2001 and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

The financial statements cover QBANK as an individual entity and subsidiaries as a group. QBANK is an unlisted public company limited by shares, incorporated and domiciled in Australia. For the purposes of preparing the financial statements QBANK is a for-profit entity.

The financial statements have been prepared on an accrual basis and are based on historical costs except for owner occupied property, investment property, financial assets at fair value through other comprehensive income, and derivatives that have been measured at fair value.

The financial statements are presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the company under ASIC Corporations Instrument 2016/191.

(b) Statement of compliance

The financial statements of QBANK as an individual entity and consolidated financial statements of the group comply with all International Financial Reporting Standards (IFRS) in their entirety.

1.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Management have made judgements when applying the group's accounting policies with respect to:

i. Accounting treatment of loans assigned to a Special Purpose Vehicle ("SPV") used for securitisation purposes – refer to Note 4.6.

ii. The classification of preference shares as equity instruments – refer to Note 5.1.

Management have made critical accounting estimates when applying the group's accounting policies with respect to the impairment provisions for loans – refer to Note 3.2.

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

		2017 $'000	2016 $'000
NOTE 2: FINANCIAL PERFORMANCE			
2.1	**INTEREST INCOME**		
(i)	***Assets at amortised cost***		
	Cash and cash equivalents	409	404
	Financial assets at amortised cost	2,405	2,331
	Loans and advances	29,386	28,246
	Deferred loan fee income	74	93
	Other	1	9
		32,275	**31,083**
(ii)	***Assets at fair value***		
	Interest rate swaps	133	224
		133	**224**
	Total interest income	**32,408**	**31,307**
2.2	**INTEREST EXPENSE**		
(i)	***Liabilities at amortised cost***		
	Deposits from wholesale depositors	3,863	3,517
	Deposits from retail members	11,361	10,984
	Securitised loans	512	350
	Other borrowings	7	41
		15,743	**14,892**
(ii)	***Liabilities at fair value***		
	Interest rate swaps	246	335
		246	**335**
	Total interest expense	**15,989**	**15,227**

Recognition and measurement

Interest income and interest expense

Interest income and interest expense for all interest earning financial assets and interest bearing financial liabilities are recognised using the effective interest rate method.

Origination fee and transaction costs that are direct and incremental to the establishment of the financial instrument are deferred and amortised as a component of the calculation of the effective interest rate.

The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the financial instrument, over its expected life.

When a loan or advance is classified as impaired, the group ceases to charge interest and other income earned but not yet received.
Loan interest is generally not charged when the group is informed that the member is deceased or generally if a loan has been transferred to a debt collection agency or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospects of a contribution from the member are minimal. However, accrued interest may be recovered as part of the recovery of the debt.

	2017 $'000	2016 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)		
2.3 OTHER INCOME		
Dividends received	143	83
Fees and commissions	3,390	3,578
Gain on sale of investment property	-	1,050
Bad debts recovered	30	59
Rental income from investment properties	926	1,128
Other	82	172
Total other revenue and income	**4,571**	**6,070**

Recognition and measurement

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

Fees and commissions

Fees charged on loans after origination of the loan are recognised as income when the service is provided.

Fees and commissions are recognised on an accruals basis when service to the customer has been rendered and a right to receive the consideration has been attained.

Dividend income

Dividend income is recognised on an accruals basis when the group's right to receive the dividend is established.

Rental income

Rental income from operating leases where the group is a lessor is recognised in profit or loss on a straight-line basis over the lease term.

All revenue is stated net of the amount of goods and services tax (GST).

	2017 $'000	2016 $'000
2.4 EXPENSES		
Depreciation and amortisation expense		
Amortisation of intangible assets (refer Note 7.3)	485	402
Depreciation of property, plant and equipment		
- owner occupied property (refer Note 7.1)	158	156
- plant and equipment (refer Note 7.1)	376	398
	1,019	**956**
Other expenses		
General and administration	1,248	1,140
Marketing & promotion	990	1,747
Member service costs	2,517	2,525
Net loss on disposal of non-current assets:		
- property, plant and equipment	(9)	2
Employee benefits expense		
Superannuation expenses	504	552

		2017 $'000	2016 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)			
2.5	**TAXATION**		
(a)	**Reconciliation of income tax expense to prima facie tax payable:**		
	Tax at the Australian tax rate of 30% (2016: 30%):	1,032	1,053
	Add Tax effect of:		
	Non-deductible entertainment	9	18
	Other assessable income	-	11
		1,041	**1,082**
	Less Tax effect of:		
	Tax offset for fully franked dividends	(43)	(25)
	Tax building depreciation/ building allowance	(11)	(11)
		(54)	**(36)**
	Income tax expense	**987**	**1,046**
(b)	**Major components of tax expense:**		
	Current tax	1,016	1,194
	Deferred tax	(29)	(148)
		987	**1,046**
(c)	**Income tax relating to items of other comprehensive income**		
	Deferred tax		
	Net changes in cash flow hedge	(36)	(6)
		(36)	**(6)**
(d)	**Franking account**		
	Balance of franking account at year-end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the end of the reporting date based on a tax rate of 30% (2016: 30%)	**23,944**	**22,893**

(e)	**Deferred Tax Assets**		
	Deferred tax assets comprise temporary differences attributable to:		
	Employee benefits	229	259
	Accrued expenses	240	220
	Derivatives/ hedge reserve	27	63
	Prepayments	(34)	(48)
	Provision for impairment	70	41
	Total deferred tax assets	**532**	**535**
	The movement in deferred tax assets for each temporary difference during the year is as follows:		
	Employee benefits		
	Opening balance	259	278
	Change recognised in profit or loss	(30)	(19)
	Closing balance	**229**	**259**

		2017 $'000	2016 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)			
2.5	**TAXATION (cont)**		
	Accrued expenses		
	Opening balance	220	134
	Change recognised in profit or loss	20	86
	Closing balance	**240**	**220**
	Derivatives/hedge reserve		
	Opening balance	63	70
	Charge recognised in other comprehensive income	(36)	(7)
	Closing balance	**27**	**63**
	Prepayments		
	Opening balance	(48)	(1)
	Change recognised in profit or loss	14	(47)
	Closing balance	**(34)**	**(48)**
	Provision for impairment		
	Opening balance	41	37
	Change recognised in profit or loss	29	4
	Closing balance	**70**	**41**
	Deferred tax assets closing balance	**532**	**535**
(f)	**Deferred Tax Liabilities**		
	Deferred tax liabilities comprise temporary differences attributable to:		
	Revaluation of investment properties	1,607	1,607
	Depreciation	(322)	(373)
	Revaluation of property, plant and equipment	1,242	1,289
	Total deferred tax liabilities	**2,527**	**2,523**
	The movement in deferred tax liabilities for each temporary difference during the year is as follows:		
	Revaluation of investment properties		
	Opening balance	1,607	1,892
	Change recognised in profit or loss	-	(285)
	Closing balance	**1,607**	**1,607**
	Depreciation		
	Opening balance	(373)	(346)
	Change recognised in profit or loss	51	(27)
	Closing balance	**(322)**	**(373)**
	Revaluation of property, plant and equipment		
	Opening balance	1,289	1,101
	Change recognised in profit or loss	(47)	188
	Change recognised in other comprehensive income	-	-
	Closing balance	**1,242**	**1,289**
	Deferred tax liabilities closing balance	**2,527**	**2,523**
	Net deferred tax liabilities closing balance	**1,995**	**1,988**

NOTE 2: FINANCIAL PERFORMANCE (cont)

2.5 TAXATION (cont)

Recognition and measurement

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and deferred tax liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax

Deferred tax assets and deferred tax liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities in the financial statements and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liabilities in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of deductible temporary differences brought to account as deferred tax assets is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the deferred tax asset to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

NOTE 3: LOANS AND ADVANCES

	2017 $'000	2016 $'000
3.1 LOANS AND ADVANCES		
Housing loans	643,720	616,217
Personal loans	11,504	12,666
Commercial loans	1,244	1,566
Overdrafts	9,304	9,817
Credit cards	10,134	10,586
Loss reserve loans	-	300
Gross loans and advances	**675,906**	**651,152**
Deferred loan funding fees	35	13
Provision for impairment	(234)	(135)
Interest on non-accrual loans	(4)	(7)
Net loans and advances	**675,703**	**651,023**
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	605,253	580,577

		2017 $'000	2016 $'000

NOTE 3: LOANS AND ADVANCES (cont)

3.1 LOANS AND ADVANCES (cont)

Recognition and measurement

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

		2017 $'000	2016 $'000
3.2	**IMPAIRMENT OF LOANS AND ADVANCES**		
(a)	**Provisions for impairment**		
	Opening balance	135	123
	Impairment expense	99	12
	Closing balance	**234**	**135**
	Details of credit risk management are set out in Note 5.3		
(b)	**Provision for impairment calculation**		
	Provision prescribed by Prudential Standards	133	85
	Additional specific provision	101	50
	Closing balance	**234**	**135**
(c)	**Impairment expense on loans and advances**		
	Movement in provision for impairment	99	12
	Bad debts written off	(87)	(205)
	Total impairment expense on loans and advances	**186**	**217**
(d)	**Assets acquired from loan recovery**		
	There were no assets acquired by QBANK during the financial year. The policy of QBANK is to sell the assets via auction at the earliest opportunity, after the measures to assist the members to repay the debts have been exhausted.		
(e)	**Loans and advances by credit quality**		
	Net Impaired loans and advances - refer 3.2(f)	501	304
	Past due but not impaired - refer 3.2(g)	7,670	5,276
	Neither past due or impaired - refer 3.2(h)	667,497	645,430
	Deferred loan funding fees	35	13
	Carrying amount	**675,703**	**651,023**
(f)	**Impaired loans and advances at reporting date**		
	Individually impaired loans and advances	739	446
	Provision for Impairment	(234)	(135)
	Interest on Non Accrual Loans	(4)	(7)
	Total net impaired loans and advances	**501**	**304**
	The above values include the balance of renegotiated loans and advances		

		2017 $'000	2016 $'000
NOTE 3: LOANS AND ADVANCES (cont)			
3.2	**IMPAIRMENT OF LOANS AND ADVANCES (cont)**		
(f)	**Impaired loans and advances at reporting date (cont)**		
	Loans by purpose		
	Housing loans	360	-
	Personal loans	12	22
	Overdrafts	367	424
		739	**446**
	Specific Provision	(234)	(135)
	Interest on Non Accrual Loans	(4)	(7)
	Carrying amount	**501**	**304**
(g)	**Past due but not impaired loans and advances at reporting date**		
	These loans are not considered impaired as the value of the related security over the residential property is in excess of the loan due. Past due values are 'on-balance sheet' loan balances		
	Loans by purpose		
	Housing loans	6,895	4,499
	Personal loans	111	149
	Overdrafts	664	628
	Carrying amount	**7,670**	**5,276**
	Aging analysis		
	Past due 0-90 days in arrears	7,670	5,276
	Carrying amount	**7,670**	**5,276**
(h)	**Neither past due or impaired loans and advances at reporting date**		
	Loans by purpose		
	Housing loans	636,466	611,718
	Personal loans	11,381	12,494
	Commercial loans	1,244	1,566
	Overdrafts	8,272	8,765
	Credit cards	10,134	10,587
	Loss Reserve Loans	-	300
	Carrying amount	**667,497**	**645,430**
	The above values include the balance of renegotiated loans and advances. All loans and advances to members that are neither past due or impaired are to long standing clients who have a good track record.		
(i)	**Collateral held**		
	QBANK holds collateral against loans and advances to customers as detailed below:		
	Loans and advances with no collateral	18,022	17,824
	Loans and advances with collateral	657,884	633,328
	Total loans and advances	**675,906**	**651,152**
	Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance and is required to be no less than 100% of the loan or advance. The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired.		

NOTE 3: LOANS AND ADVANCES (cont)

3.2 IMPAIRMENT OF LOANS AND ADVANCES (cont)

Key assumptions in determining the provision for impairment

In the course of the preparation of the financial statements, QBANK has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances.

In identifying the impairment arising from these events QBANK is required to estimate the 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 follows:

Period of Impairment	Overdrafts % of balance	Unsecured Loans % of balance	Secured Loans % of balance
Less than 14 days	0%	0%	0%
14 days to 89 days	40%	0%	0%
90 to 181 days	75%	40%	5%
182 to 272 days	100%	60%	10%
273 to 364 days	100%	80%	15%
365 days and over	100%	100%	20%

The aforementioned percentages are applied against the relevant balance outstanding to calculate the provision for impairment.

Recognition and measurement

Impairment of loans and advances

A provision for losses on impaired loans and advances is recognised when there is objective evidence that impairment of loans and advances has occurred. All loans and advances are subject to continuous management review to assess whether there is any objective evidence that any loans or advances or group of loans and advances 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.

Impairment losses on loans and advances are measured as the difference between the carrying amount of loans and advances and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans and advances original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The amount provided for impairment of loans is determined by management. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loans and advances balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the group. Management also make a provision for loans in arrears where the collectability of the debt is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. Note 5.3B details the credit risk management approach to loan impairment.

In addition, a general reserve for credit losses is maintained in equity to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings in compliance with APRA requirements.

Bad debts are written off, as determined by management, when it is reasonable to expect that the recovery of the loan is unlikely. All write-offs are on a case-by-case basis, taking into account the exposure at the date of the write-off. On secured loans, the write-off takes place following ultimate realisation of collateral value.

Bad debts are written off against the provision for impairment where impairment has previously been recognised in relation to loans and advances. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expense in profit or loss.

Renegotiated loans are loans and advances here the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members.

		2017 $'000	2016 $'000

NOTE 4: LIQUIDITY

4.1 CASH AND CASH EQUIVALENTS

		2017 $'000	2016 $'000
(a)	**Cash and cash equivalents**		
	Cash on hand	118	149
	Deposits with Authorised Deposit-taking Institutions ("ADI")	25,163	28,285
		25,281	**28,434**

The effective interest rate on short-term ADI deposits was1.62% (2016: 1.87%).

Recognition and measurement

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held in ADIs and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of changes in their value, and are used by the group in the management of its short-term commitments.

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

(b) Notes to the statement of cash flows

(i) Reconciliations of cash

For the purposes of the statement of cash flows, cash includes cash on hand and call deposits.

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2017 $'000	2016 $'000
Cash and cash equivalents	25,281	28,434
	25,281	**28,434**

(ii) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

(a) customer deposits and withdrawals from savings, money market and other deposit accounts;

(b) sales and purchases of securities;

(c) sales and purchases of maturing certificates of deposit;

(d) short-term borrowings; and

(e) provision of member loans and the repayment of such loans.

		2017 $'000	2016 $'000
NOTE 4: LIQUIDITY (cont)			
4.1	**CASH AND CASH EQUIVALENTS (cont)**		
(iii)	***Reconciliation of cash flow from operations with profit after income tax***		
	Profit after income tax	**2,452**	**2,462**
	Non-cash flows in profit after income tax:		
	Amortisation	485	402
	Depreciation	534	554
	Provision for loan impairment	186	245
	Loss on sale of property, plant and equipment	(9)	2
	(Gain)/Loss on sale of investment properties	-	(1,050)
	Change in assets and liabilities:		
	(Increase)/Decrease in other receivables	(64)	3
	(Increase)/Decrease in prepayments	132	(597)
	Increase/(Decrease) in other payables	126	1,890
	Increase/(Decrease) in deferred and income taxes	14	(176)
	Increase/(Decrease) in provisions	(47)	(59)
	Net movement in financial assets at fair value through other comprehensive income	-	(103)
	Net movement in financial assets at amortised cost	6,956	(31,746)
	Net movement in loans and advances	(24,887)	(103,480)
	Proceeds/(payments) – borrowings	(2,868)	39
	Net movements in deposits	17,274	145,026
	Net cash provided by/(used in) operating activities	**284**	**13,412**
4.2	**OTHER FINANCIAL ASSETS**		
(a)	**Financial assets at fair value through other comprehensive income**		
	Shares in unlisted entities – Indue Ltd	2,377	2,377
	Shares in unlisted entities – SSP Ltd	20	20
		2,397	**2,397**
	Amount of financial assets at fair value through other comprehensive income expected to be recovered more than 12 months after the reporting date	2,397	2,397

Indue Ltd was created to supply services to mutual ADI members, providing transactional banking services to the finance industry. The shares are not publicly traded, are not redeemable, and have restrictions on the ability to transfer the shares.

QBANK is not intending, nor able to dispose of these shares, without approval by a majority of shareholders.

The fair value of QBANK shareholding in Indue Ltd is determined using various valuation techniques. QBANK uses its judgement to select a method and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

SSP Ltd was created to explore shared services that can benefit member and financial institutions. These shares are held to enable QBANK to access potential savings through shared service arrangements. The shares are not publicly traded, are not redeemable, and have restrictions on the ability to transfer the shares.

NOTE 4: LIQUIDITY (cont)

4.2 OTHER FINANCIAL ASSETS (cont)

Recognition and measurement

Financial assets at fair value through other comprehensive income

Investment securities are initially measured at fair value. After initial recognition, investments are subsequently measured at either amortised cost or fair value, depending on the group's business model for managing the investment and the contractual cash flow characteristics of that investment. If the investment is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes incremental direct transaction costs related to its acquisition or origination.

After initial recognition, these investments are measured at fair value and any changes therein, including any interest or dividend income, are recognised in profit or loss.

However, for investments in equity instruments that are not held for trading, the group may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends earned from such investments are recognised in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment.

Impairment

Where there is a significant or prolonged decline in the fair value of a financial asset at fair value through other comprehensive income equity instruments below its cost (which constitutes objective evidence of impairment) the cumulative loss recognised in other comprehensive income is reclassified from the financial asset at fair value through other comprehensive income investments revaluation reserve to profit or loss as a reclassification adjustment. Reversals of impairment losses on equity instruments classified as a financial asset at fair value through other comprehensive income cannot be reversed through profit or loss. Reversals of impairment losses on debt instruments classified as a financial asset at fair value through other comprehensive income can be reversed through profit or loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in profit or loss.

		2017 $'000	2016 $'000
(b)	**Financial assets at amortised cost**		
	Deposits with ADIs	96,681	103,637
		96,681	**103,637**
	Amount of financial assets at amortised cost expected to be recovered more than 12 months after the reporting date	25,547	25,586
	Term deposits held with Indue Ltd are security for Indue Ltd providing transactional banking services and an overdraft facility of $1,000,000 QBANK (Refer Note 4.4(b)). Term deposists held with CUSCAL Ltd are security for CUSCAL Ltd providing transactional banking services to QBANK.		

Recognition and measurement

Financial assets at amortised cost

Investment securities are initially measured at fair value. On initial recognition, the group classifies its investments as subsequently measured at either amortised cost or fair value, depending on the group's business model for managing the investment and the contractual cash flow characteristics of that investment. If the investment is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes incremental direct transaction costs related to its acquisition or origination.

A financial asset is subsequently carried at amortised cost, using the effective interest rate method and net of any impairment loss if:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Impairment

The group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes observable data indicating that there is a measurable decrease in estimated future cash flows.

Impairment losses are measured as the difference between the investment's carrying amount and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the investment's original effective interest rate. Impairment losses are recognised in profit or loss.

	2017 $'000	2016 $'000
NOTE 4: LIQUIDITY (cont)		
4.3 DEPOSITS		
Member call deposits (including withdrawable shares)	303,763	296,072
Negotitable certificates of deposit	103,419	98,064
Term deposits	317,964	313,736
Accrued interest	3,382	2,872
	728,528	**710,744**
Amount of deposits expected to be settled more than 12 months after the reporting date	31,546	32,541
Concentration of Deposits		
The following groups represent concentrations of deposits in excess of 10% of total liabilities:		
Qld Government Employees including Police, Fire and Ambulance Services		
% value of deposits	22.51%	22.46%
$ value of deposits	163,983	159,602

Recognition and measurement

Deposits

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest on deposits is recognised on an accrual basis. Interest accrued at the end of the reporting date is shown as a part of deposits.

	2017 $'000	2016 $'000
4.4 BORROWINGS		
(a) Borrowings		
Loan from Trinity SPV (refer Note 4.6)	12,290	15,157
	12,290	**15,157**
Amount of borrowings expected to be settled more than 12 months after the reporting date	12,290	15,157

NOTE 4: LIQUIDITY (cont)

4.4 BORROWINGS (cont)

	Approved Facility $'000	Current Borrowing $'000	Net Available $'000
(b) Borrowing facilities			
The group has a gross borrowing facility as follows:			
2017			
Overdraft facility - Indue Ltd	1,000	-	1,000
	1,000	**-**	**1,000**
2016			
Overdraft facility - Indue Ltd	1,000	-	1,000
	1,000	**-**	**1,000**

There are no restrictions on withdrawal of funds in relation to the overdraft facility.

The overdraft with Indue Ltd is secured by a term deposit held with Indue Ltd.

Recognition and measurement

Borrowings

Borrowing is initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method, except where the group designates to carry the liabilities at fair value through the profit or loss. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the subordinated debt using the effective interest method.

The group classifies financial instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

	2017 $'000	2016 $'000
4.5 DERIVATIVES		
Liabilities		
Interest rate swap contracts - cash flow hedges	90	211

QBANK's term deposits bear an average rate of interest of 2.87% (2016: 2.98%). In respect of the monthly interest rate swap contracts, the fixed interest rate is 3.18% (2016: 3.04%) and the floating rate between 1.82% and 1.62% during the year (2016: 2.10% and 1.84%). As at 30 June 2017, the current floating rate was 0.01% below (2016: 0.01%) the 30 day bank bill rate which was 1.62% (2016: 1.85%).

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2017 $'000	2016 $'000
Less than 1 year	-	6,000
1 - 2 years	5,000	-
2 - 3 years	-	5,000
3 - 4 years	-	-
4 - 5 years	-	-
Total Interest Rate Swaps	**5,000**	**11,000**

	2017 $'000	2016 $'000

NOTE 4: LIQUIDITY (cont)

4.5 DERIVATIVES (cont)

The contracts require settlement of net interest receivable or payable every 1 month. The contracts are settled on a net basis.

Gains or losses from remeasuring the interest rate swap contracts at fair value are recognised in other comprehensive income and accumulated in the Cashflow Hedge Reserve to the extent that the hedge is effective, and reclassified in net profit when the hedged interest expense is recognised. The ineffective portion is recognised in profit or loss immediately. During the year ended 30 June 2017, there was no transfer to the profit or loss (2016: Nil).

Recognition and measurement

Derivatives

The group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Derivatives used for risk management purposes are measured at fair value.

For the purpose of hedge accounting, derivatives are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction. When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of the changes in the fair value of the derivative is recognised in other comprehensive income in the cash flow hedge reserve and reclassified to profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss as finance costs.

If a derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in other comprehensive income in the cash flow hedge reserve remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in the cash flow hedge reserve is recognised immediately in profit or loss for the year as a reclassification adjustment.

4.6 SECURITISATION

(a) QPCU Heroes Trust No 1 has been established to support the ongoing liquidity management framework at QBANK. QBANK has purchased the Residential Mortgage Backed Securities (RMBS) issued by QPCU Heroes Trust No 1. The senior RMBS held by QBANK is eligible to be utilised as collateral in repurchase agreements with the Reserve Bank of Australia (RBA). These arrangements enable QBANK to raise funds from the RBA utilising its loans and advances as the underlying security.

QBANK has retained substantially all the risks and rewards of ownership of the relevant loan and advances as it has retained credit risk and interest rate risk. Due to the retention of substantially all the risks and rewards of ownership QBANK continues to recognise the transferred assets within loans and advances and the transfer is accounted for as a secured financing transaction.

QBANK collects the cash receipts relating to the loans and advances and passes these receipts on to the QPCU Heroes Trust No 1. QBANK cannot use the transferred assets as they have been transferred to the QPCU Heroes Trust No 1 and pledged as security for securities issued by QPCU Heroes Trust No 1.

The following table sets out the carrying amounts of transferred financial assets and the associated liabilities at the reporting date:

	2017 $'000	2016 $'000
Carrying amount of transferred assets	**91,753**	**87,826**
Carrying amount of associated liabilities	**94,357**	**91,602**
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred assets	91,753	87,826
Fair value of associated liabilities	94,357	91,602
Net position	**(2,604)**	**(3,776)**

NOTE 4: LIQUIDITY (cont)

4.6 SECURITISATION (cont)

(b) Securitised Loans – QPCU Heroes Trust No 1

QBANK has assigned the rights and benefits of a parcel of mortgage secured loans to a securitisation entity, QPCU Heroes Trust No 1. The total assigned mortgage secured loans to the securitisation entity amounted to $91,753,157 as at 30 June 2017 (2016: $87,826,446).

QBANK acts in a manager and servicer capacity for the securitisation entity in respect to the day to day operation of the individual mortgaged loans and receives a servicer fee based on a percentage of the average balances outstanding. QBANK also receives an excess distribution as the distribution unit holder of the trust, which is the surplus income from the securitisation entity after deducting funding and operating costs. The excess spread will vary according to the monthly performance of the securitisation entity.

The assignment of loans does not satisfy the de-recognition criteria prescribed in AASB 139, and accordingly the loans are recognised in the Statement of Financial Position. QPCU continues to recognise the transferred assets with loans and advances and the transfer is accounted for as a secured financing transaction.

(c) Securitised Loans – Trinity Securitisation

QBANK has assigned the rights and benefits of a parcel of mortgage secured loans to a securitisation entity, Trinity Mortgage Origination Trust No 1, known as Trinity SPV. The total assigned mortgage secured loans to the securitisation entity amounted to $12,289,515 as at 30 June 2017 (2016: $15,157,075).

While QBANK does not carry the credit risk associated with the assigned mortgages it does act in a management capacity for the securitisation entity in respect to the day to day operation of the individual mortgaged loans and receives a management fee based on a percentage of the balances outstanding. QBANK also receives an excess spread fee which is calculated as a percentage of the surplus income from the securitisation entity after deducting funding and operating costs. The excess spread will vary according to the monthly performance of the securitisation entity.

The assignment of loans does not satisfy the de-recognition criteria prescribed in AASB 139, and accordingly the loans are recognised in the Statement of Financial Position with a corresponding increase of a loan due to the Trinity SPV which is classified as borrowings, amounting to $12,289,515 as at 30 June 2017 (2016: $15,157,075).

Recognition and measurement

Securitisation

The group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains substantially all of the risks and rewards of ownership of the transferred assets. If substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of substantially all risks and rewards include, for example, certain loan securitisation and repurchase transactions.

In transactions in which the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the group continues to recognise the asset to the extent of its continuing involvement.

In transactions in which the group either transfers substantially all the risks and rewards of ownership of the transferred assets or neither transfers nor retains substantially all the risk and rewards and does not retain control of the transferred assets the group derecognises the transferred assets. The group also recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

	2017 $'000	2016 $'000

NOTE 5: RISK AND CAPITAL MANAGEMENT

5.1 TIER 1 REDEEMABLE PREFERENCE SHARES

	2017 $'000	2016 $'000
Tier 1 redeemable preference share	-	3,000
Tier 1 debt raising discount	-	(70)
	-	**2,930**

The group entered into agreements to issue redeemable preference shares on 21 June 2006.

The agreement specified that the group also establish loans equivalent to 10% of the value of the shares (Loss Reserve Loans) with the investors as security for payment of dividends. The loans are provided as subordinated debt to the investors.

The Loss Reserve Loans earn interest during the issue period that will be remitted to the group quarterly on each interest payment date. The Loss Reserve Loans and the accrued interest act as security for the investors to the extent that dividends are not paid on the shares by the group on the relevant dividend payment date.

In total 30,000 shares, each with an issue price of A$100, were issued and paid in full.

The total 30,000 shares were bought back in full on 30 December 2016 for $100 per share.

Each share entitled the holder on the record date to receive, on the relevant dividend payment date, a dividend for the dividend period ending on the dividend payment date. Payment of dividends is conditional upon a resolution of the Directors to pay a dividend on the relevant dividend payment date.

There are no shares reserved for issue under options and contracts for the sale of shares.

In the event of a winding up of the group, holders are entitled to repatriation of the A$100 issue price, contingent upon an adequate surplus being available after satisfaction in full of all deposit liabilities and all other creditors.

Holders of the permanent preference shares have the same rights as those of holders of members shares in relation to receiving notices, reports and audited accounts and attending meetings of the group. Holders are not entitled to vote or participate in any decision-making of the group.

A holder has no right to redemption of the instruments.

Holders are not entitled to participate in any issue of securities by the group to holders of members shares.

Holders are entitled to transfer permanent preference shares to any person entitled to hold redeemable preference shares in accordance with the Constitution.

Recognition and measurement

Redeemable preference shares that are redeemable at the option of the entity are classified as equity. Any dividends on these preference shares are recognised in equity as a deduction from retained earnings.

5.2 RESERVES

(a) Asset Revaluation Reserve
The asset revaluation reserve records revaluations of non-current assets.

(b) Reserve for Credit Losses
The reserve for credit losses records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards as set down by APRA.

(c) Cashflow Hedge Reserve
The cashflow hedge reserve records the changes in fair value of the interest rate swap to the extent that the hedge was effective.

(d) Redeemed preference share capital account
The redeemed preference share capital account records the transfer of profits appropriated for the redeemable preference shares that have been redeemed.

Under the Corporations Act 2001, member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits. The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.3 RISK MANAGEMENT POLICY AND OBJECTIVES

Introduction

The Board of Directors (the Board) has endorsed a policy of compliance and risk management to suit the risk profile of QBANK.

The Risk Appetite Statement and key risk management policies encompassed in the overall risk management framework include:

- Strategic risk management
- Interest rate risk management
- Capital management
- Liquidity management
- Credit risk management
- Operational risk management including information management and security, fraud prevention, anti-money laundering and business continuity.

The main elements of risk governance are as follows:

(i) Board

This is the primary governing body and approves the level of risk to which QBANK is exposed and the framework for identifying, assessing, mitigating and reporting of risk. The Board is also responsible for overseeing and guiding QBANK's risk culture.

(ii) Risk and Compliance Committee

This is a key body in the risk management framework. It is comprised of three Directors of QBANK. The Risk and Compliance Committee reports to the Board. The Risk and Compliance Committee reviews both quantifiable and non-quantifiable material and strategic risks and the effectiveness of existing controls that are used to mitigate those risks. Regular monitoring of material and strategic risks is carried out by the Risk and Compliance Committee based on periodic reporting from the Chief Risk Officer and Executive Management.

The Risk and Compliance Committee also oversees contingency plans in place to achieve business continuity in the event of serious disruptions to business operations.

(iii) Chief Risk Officer

The Chief Risk Officer is responsible for reporting of risk information to the Risk and Compliance Committee. Responsibilities also extend to implementation of the Risk Management Framework.

(iv) Audit Committee

The Audit Committee's role in risk management is to assess the effectiveness of controls that are in place to mitigate risks. In performing this role, the Audit Committee reviews risk and compliance reports and internal audit reports and provides feedback to the Risk and Compliance Committee and the Board for their consideration.

(v) Internal Auditor

The Internal Auditor has responsibility for implementing the controls testing, assessment and reporting as required by the Audit Committee.

(vi) Asset and Liability Committee (ALCO)

ALCO meets at least monthly and has responsibility for managing interest rate risk, liquidity risk and capital management and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the relevant risk management policies.

QBANK utilises the following strategies to manage the risks arising from business operations.

A. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates and other volatilities will have an adverse effect on QBANK's financial condition or results. QBANK is not exposed to currency risk. QBANK does not trade in the financial instruments it holds on its books.

The objective of QBANK's interest rate risk management is to manage and control interest rate risk exposures in order to optimise risk and return.

The management of interest rate risk is the responsibility of the ALCO which reports to the Board.

QBANK's exposure to interest rate risk is measured and monitored using present value sensitivity, "Value at Risk" and "Earnings at Risk"measures. There has been no material change to QBANK's exposure to interest rate risk or the way QBANK manages and measures interest rate risk in the reporting period.

The policy of QBANK is to maintain "Value at Risk" and present value sensitivity below its policy limit. Exposures are measured and compared to limits bi-monthly. The Derivatives and Hedging Policy allows the use of derivative transactions to hedge interest rate risks.

Interest rate risk reports are prepared internally and reviewed by the ALCO. The Board monitors interest rate risks with these reports for reference.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.3 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

QBANK's exposure to interest rate risk, which is the risk that a financial instrument's value or cash flows will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate on classes of financial assets and financial liabilities, are set out below.

	Floating Interest Rate	Fixed Interest Rate Maturing			Non Interest Sensitive	Total	Effective Interest Rate
		Within 1 Year	1 to 5 Years	Over 5 Years			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2017							
Financial Assets							
Cash and cash equivalents	25,163	-	-	-	118	25,281	1.62%
Other receivables	-	-	-	-	1,484	1,484	
Financial assets at amortised cost	-	71,134	25,547	-	-	96,681	2.29%
Financial assets at fair value through other comprehensive income	-	-	-	-	2,397	2,397	
Loans and advances	510,926	32,577	132,200	-	-	675,703	4.43%
Total Financial Assets	**536,089**	**103,711**	**157,747**	**-**	**3,999**	**801,546**	
Financial Liabilities							
Deposits	307,145	389,837	31,546	-	-	728,528	2.12%
Borrowings	12,290	-	-	-	-	12,290	3.80%
Other payables	-	-	-	-	2,184	2,184	
Total Financial Liabilities	**319,435**	**389,837**	**31,546**	**-**	**2,184**	**743,002**	
Off-Balance Sheet							
Interest rate swaps	5,000	-	(5,000)	-	-	-	1.41%
Total Off-Balance Sheet	**5,000**	**-**	**(5,000)**	**-**	**-**	**-**	
2016							
Financial Assets							
Cash and cash equivalents	28,285	-	-	-	149	28,434	1.87%
Other receivables	-	-	-	-	1,420	1,420	
Financial assets at amortised cost	-	78,051	25,586	-	-	103,637	2.59%
Financial assets at fair value through other comprehensive income	-	-	-	-	2,397	2,397	
Loans and advances	481,488	33,220	136,315	-	-	651,023	4.84%
Total Financial Assets	**509,773**	**111,271**	**161,901**	**-**	**3,966**	**786,911**	
Financial Liabilities							
Deposits	298,944	379,259	32,541	-	-	710,744	2.30%
Borrowings	15,157	-	-	-	-	15,157	4.28%
Other payables	-	-	-	-	2,591	2,591	
Total Financial Liabilities	**314,101**	**379,259**	**32,541**	**-**	**2,591**	**728,492**	
Off-Balance Sheet							
Interest rate swaps	11,000	(6,000)	(5,000)	-	-	-	1.00%
Total Off-Balance Sheet	**11,000**	**(6,000)**	**(5,000)**	**-**	**-**	**-**	

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.3 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

Based on calculations as at 30 June 2017, the change in present value of interest bearing assets and interest bearing liabilities for a 1% (2016: 1%) movement in interest rates would be $274,000 (2016: $4,500). In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over interest bearing investments, borrowings, loan products and deposits (excluding standard rate call savings deposits);
- Notional capital represented by interest bearing assets less interest bearing liabilities is treated as fixed interest and spread over years one to three;
- The rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- Term deposits and borrowings would all reprice to the new interest rate at maturity, or are replaced by similar products with similar terms and rates applicable as the maturing liability;
- Standard rate call savings deposits would not reprice in the event of a rate change;
- Premium rate savings deposits would reprice to the new rate immediately;
- Fixed rate loans to members and fixed rate investments would all reprice to the new interest rate at the contracted date;
- Variable rate mortgage loans to members and variable rate investments would all reprice to the new interest rate immediately;
- Personal loans would reprice to the new rate immediately; and
- The value and mix of interest bearing assets and liabilities will be unchanged.

B. Credit Risk

Credit risk is the risk that members and other counterparties will be unable to meet their obligations to QBANK which may result in financial losses. Credit risk arises principally from QBANK's lending and investment assets.

Credit risk – loans and advances

QBANK's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position, except loans where the maximum credit risk exposure is $679,366,492 (2016: $652,321,757).

In relation to loans, the maximum credit exposure is the value on the Statement of Financial Position plus the undrawn loan commitments. Details of undrawn loan commitments are shown in Note 6.1(b).

Concentrations of credit risk on loans greater than 10% of capital currently arise in the following categories:

	Maximum Credit Risk Exposure			
	% of Total Loans		$'000	
	2017	2016	2017	2016
Geographical Area				
Brisbane	47.76%	48.12%	322,799	313,306
Queensland - other than Brisbane	46.87%	46.34%	316,814	301,764
Industry				
Qld Government employees	75.73%	74.21%	497,116	467,844

There are no concentrations of credit risk on loans to individual members (including associated members) greater than 10% of capital.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before loans are approved and close monitoring of defaults in the repayment of loans thereafter on a continuous basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are credit-worthy (capable of meeting loan repayments).

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.3 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

QBANK has established policies over the:

- Credit assessment and approval of loans and other facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers, non-mortgage secured loans, commercial lending and concentrations of geographic and industry groups considered a high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

(i) Past due and impaired loans

A loan is past due when the counterparty has failed to make payment when contractually due. Past due does not mean that a counter-party will never pay but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings.

Daily loan repayment reports are monitored to detect delays in repayments and recovery action is commenced on loans after 2 days and 8 days for credit cards. Where considered necessary, for accounts on which repayments are doubtful, external consultants may be engaged to conduct recovery action. Exposure to credit losses arise predominantly in loans and other facilities which are not secured by registered mortgages over real estate.

If appropriate, the estimated recoverable amount of the loan is determined and any impairment loss based on the net present value of future anticipated cash flows is recognised in the profit or loss. In estimating these cash flows management makes judgements about a counter-party's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, QBANK makes collective assessments for each financial asset portfolio segment by similar risk characteristics.

Provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in QBANK's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for impairment is established on all past due loans after a specified period of repayment default where it is probable that some of the asset will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including changes in counterparty's industry and technological developments, as well as identified structural weaknesses or deterioration in cash flows. Details of past due and impaired balances and provisions for impairment of loans and advances to members are discussed in Note 3.2.

(ii) Collateral securing loans

A sizeable portion of the loan book is secured on residential property in Australia. Therefore, QBANK is exposed to risks in the increase of the Loan to Value Ratio (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 3.2(i) outlines the nature and extent of the security held against the loans as at the end of the reporting period.

It is the policy of QBANK to allow members with a secured loan or advance reasonable assistance and opportunity to rectify a breach prior to recovery procedures being initiated. Details of assets acquired from loan recovery and their disposal are shown in Note 3.2(d).

(iii) Concentration risk – individuals

Concentration risk is a measurement of QBANK's exposure to an individual counterparty (or group of related parties).

QBANK minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Concentration risk is also managed in accordance with the Prudential Standards. A large exposure is considered to exist if prudential limits are exceeded as a proportion of QBANK's regulatory capital (10%). No additional capital is required to be held against these but APRA must consent to the exposure before any facility is approved. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable.

Concentration exposures of counterparties are closely monitored with no relationship presently having an exposure over 5% of QBANK's capital base. QBANK carries out detailed Credit Risk Portfolio Reviews quarterly, which incorporates comprehensive LVR analysis.

(iv) Concentration risk – industry

QBANK has a concentration in retail lending to members who comprise employees and family of the Queensland Police Service, Queensland Ambulance Service, Queensland Fire and Emergency Services, and Queensland Corrective Services sectors. This concentration is considered acceptable on the basis that QBANK was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.3 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

Credit risk – liquid investments

Credit risk in relation to liquid investments is the risk that the other party to a financial instrument fails to discharge their obligation resulting in QBANK incurring a financial loss.

(i) Concentration of credit risk

The Liquidity Management policy requires that investments are only made to institutions that are creditworthy. A maximum of 25% of the total portfolio can be invested in any one counterparty or group of related counterparties at a time. There are investment grade and individual counterparty limits. Unrated investments are capped at 25% of the total portfolio.

The risk of losses from liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one entity.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in liquid investments accessible by Credit Union Financial Support Services Ltd (CUFSS) to allow the scheme to have adequate resources to meet its obligations.

(ii) External credit assessment for institutional investments

QBANK uses the ratings of Standard and Poor's, Moody's Investor Services and Fitch Ratings to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA Prudential Standard 112.

ALCO oversees the management of credit risk on liquid investments in accordance with the Liquidity Management Policy.

The carrying values associated with each credit quality step for QBANK are as follows:

	2017	2016
	$'000 Carrying value	$'000 Carrying value
ADI's – rated A and above*	29,559	28,598
ADI's – rated A– to BBB*	58,230	66,147
Indue (unrated)	8,892	8,892
(*Standard and Poor's)	96,681	103,637

C. Liquidity risk

Liquidity risk is the risk that QBANK may encounter difficulties raising funds to meet commitments associated with financial instruments eg. repayments of borrowings, wholesale deposits or member withdrawal demands. It is the policy of the Board that treasury maintains adequate cash reserves so as to meet member withdrawal demands when requested.

QBANK manages liquidity risk by:

- Continuously monitoring actual and daily cash flows and forecasting longer term cash flows;
- Monitoring the maturity profiles of financial assets and financial liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

ALCO oversees the management of liquidity risk in accordance with the Liquidity Management Policy.

QBANK has a long standing arrangement with the industry liquidity support scheme, Credit Union Financial Support Services Ltd (CUFSS) which can access industry funds to provide support to QBANK should this be necessary at short notice.

QBANK is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the Australian Prudential Regulation Authority (APRA) Prudential Standards. QBANK's policy is to maintain at least 13% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is monitored and reported daily. Should the liquidity ratio fall below this level management and the Board are to address the matter and ensure that liquid funds are obtained from new deposits and the borrowing facilities available. Note 4.4(b) describes the borrowing facilities as at the end of the reporting period.

To manage the liquidity risk arising from financial liabilities, QBANK holds liquid assets comprising cash and cash equivalents and investment grade investment securities. These assets can be readily sold to meet liquidity requirements. Hence, QBANK believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable the users to evaluate the nature and extent of liquidity risk.

The ratio of liquid funds over the past year is set out here:

	2017	2016
	$'000	$'000
Liquid funds to total adjusted liabilities:		
- As at 30 June	15.84%	17.36%
- Average for the year	17.16%	16.62%
- Minimum for the year	15.16%	13.89%
Liquid funds to total member deposits:		
- As at 30 June	16.74%	18.58%

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.3 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

The table below shows the periods in which the financial liabilities mature. Contractual cash flows shown in the table are at undiscounted values (including future interest expected to be paid). Accordingly, these values may not agree to carrying amount.

	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying amount $'000
2017							
Financial Liabilities							
Deposits	398,262	98,949	204,139	34,142	-	735,492	728,528
Borrowings	90	181	813	4,314	15,272	20,670	12,290
Other payables	2,184	-	-	-	-	2,184	2,184
Total Financial Liabilities	**400,536**	**99,130**	**204,952**	**38,456**	**15,272**	**758,346**	**743,002**
Off-Balance Sheet Items							
Undrawn Commitments - Note 27(b) & 29(b)	95,895	-	-	-	-	95,895	-
Interest Rate Swaps	6	12	56	168	-	242	90
Total Off-Balance Sheet Instruments	**95,901**	**12**	**56**	**168**	**-**	**96,137**	**90**
2016							
Financial Liabilities							
Deposits	369,668	117,056	195,946	35,134	-	717,804	710,744
Borrowings	112	224	1,008	5,349	19,263	25,956	15,157
Other payables	2,591	-	-	-	-	2,591	2,591
Total Financial Liabilities	**372,371**	**117,280**	**196,954**	**40,483**	**19,263**	**746,351**	**728,492**
Off-Balance Sheet Items							
Undrawn Commitments - Note 27(b) & 29(b)	95,258	-	-	-	-	95,258	-
Interest Rate Swaps	10	20	91	168	-	289	211
Total Off-Balance Sheet Instruments	**95,268**	**20**	**91**	**168**	**-**	**95,547**	**211**

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.3 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

D. Operational risk

Operational risk is the risk of loss to QBANK resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in QBANK relate mainly to those risks arising from a number of sources including regulatory compliance, business continuity, data infrastructure, outsourced services, fraud, and employee errors.

QBANK's objective is to manage operational risk so as to balance the avoidance of financial losses and reputational damage through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of events and minimise the impact.

Systems of internal control are enhanced through:

- The segregation of duties between employees and functions, including approval and processing duties;
- Documentation of the policies and procedures, employee position descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- A risk culture framework to develop appropriate risk behaviour, including breach and incident reporting and rectification (all QBANK staff have risk and compliance KPI's);
- Education of members to review their account statements and report exceptions to QBANK promptly;
- Effective dispute resolution procedures to respond to member complaints;
- Effective insurance arrangements to reduce the impact of losses; and
- Contingency plans for dealing with loss of functionality of system or premises or staff.

(i) Fraud

QBANK has systems in place which are considered to be robust for managing any material fraud risk. Fraud losses for the financial year were minimal.

(ii) IT systems

The worst case scenario would be the failure of QBANK's core banking and IT network suppliers to meet customer obligations and service requirements. QBANK has outsourced the IT systems management to an independent data processing centre which is owned by a collection of credit unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of QBANK by the industry body Indue Limited to service the settlements with other financial institutions for direct entry, Visa and ATM cards, BPAY and chequing.

A full disaster recovery plan is in place to cover medium to long-term problems. This plan is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

5.4 CAPITAL MANAGEMENT

The Australian Prudential Regulatory Authority (APRA) sets and monitors capital requirements for QBANK under Australian Prudential Standard (APS) 110 Capital Adequacy. Under the Standard QBANK must maintain minimum levels of Tier 1 capital and may also hold Tier 2 capital up to certain prescribed limits. Tier 1 capital comprises the highest quality components of capital that fully satisfy the following essential characteristics:

- Provide a permanent and unrestricted commitment of funds;
- Are freely available to absorb losses;
- Do not impose any unavoidable servicing charges against earnings; and
- Rank behind claims of depositors and other creditors in the event of winding up.

QBANK's Tier 1 capital includes asset revaluation, cash flow hedge and general reserves (except reserve for credit losses), and retained earnings less prescribed regulatory adjustments.

Tier 2 capital comprises capital that, to varying degrees, fall short of the quality of Tier 1 capital but exhibit some of the features of equity and contribute to the overall strength of QBANK as a going concern. QBANK's Tier 2 capital includes collective impairment allowances where the standardised approach is used (reserve for credit losses).

	2017 $'000	2016 $'000
NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)		
5.4 CAPITAL MANAGEMENT (cont)		
Capital in QBANK is made up as follows:		
Tier 1 Capital		
Retained earnings	68,368	66,010
Asset revaluation reserve	3,798	3,798
General reserve	365	338
Cash flow hedge reserve	(63)	(148)
Less prescribed deductions	(3,086)	(3,477)
Net Tier 1 Capital	**69,382**	**66,521**
Tier 2 Capital		
Reserve for credit losses	1,576	1,569
Net Tier 2 Capital	**1,576**	**1,569**
Total Capital	**70,958**	**68,090**

The minimum prudential capital requirement (as a percentage of Risk Weighted Assets) that an ADI must maintain at all times is 8% (2016: 8%). APRA may set a Prudential Capital Ratio at or above this minimum. QBANK has complied with all APRA determined capital requirements throughout the period.

QBANK's objective is to maintain sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally imposed capital ratios. To manage capital, QBANK calculates the ratio monthly and monitors major movements. Policies have been implemented which require reporting to the Board if the capital falls below 15.25% (2016: 18%), and the regulator if the capital ratio falls below 14.25% (2016: 14%). Further, a 3 year projection of capital levels is prepared annually to address results of operations, strategic decisions or trends that may impact on the capital level.

The level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.
The capital ratios as at the end of each reporting period, for the past 5 years follows:

2017	2016	2015	2014	2013
19.22%	18.56%	21.93%	21.89%	20.48%

		2017 $'000	2016 $'000
NOTE 6: UNRECOGNISED ITEMS			
6.1	**COMMITMENTS**		
(a)	**Future capital commitments**		
	Commitments for the completion of technology projects which have not been recognised as liabilities are payable as follows:		
	No longer than 1 year	32	63
	Longer than 1 year and not longer than 5 years	-	-
	Longer than 5 years	-	-
		32	**63**
(b)	**Outstanding loan commitments**		
	Loans and credit facilities approved but not funded or drawn at the end of the financial year:		
	Loans approved but not funded	15,989	16,769
	Undrawn overdraft, line of credit and credit cards	31,629	33,489
	Amounts available for redraw	48,210	44,932
		95,828	**95,190**

6.2 CONTINGENT LIABILITIES

(a) **Credit union financial support system**

QBANK is a participant in the Credit Union Financial Support System Ltd (CUFSS). The purpose of CUFSS is to protect the interests of its members, increase stability in the industry and provide liquidity in excess of current borrowing limits in times of need.

The balance of the debt at 30 June 2017 was Nil (2016: Nil).

(b) **Guarantees**

QBANK has provided guarantees on behalf of members.
The maximum liability of the guarantees is limited to $68,121 (2016: $68,121). As at 30 June 2017, QPCU Limited is unaware of any claim in relation to these guarantees.

6.3 EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

No circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect, the operations of the group, or the state of affairs of the group in future financial years.

NOTE 7: OTHER INFORMATION

		2017 $'000	2016 $'000
7.1	**PROPERTY, PLANT AND EQUIPMENT**		
(a)	**Carrying Values**		
	Owner Occupied Property		
	At fair value	6,297	6,297
	Accumulated depreciation	(314)	(156)
		5,983	**6,141**
	Plant and Equipment		
	At cost	3,628	4,255
	Accumulated depreciation	(2,540)	(2,937)
		1,088	**1,318**
	Total Property, Plant and Equipment	**7,071**	**7,459**

		Owner Occupied Property $'000	Plant and Equipment $'000	Total $'000
(b)	**Movements In Carrying Values**			
	Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial year are set out below.			
	Balance at 30 June 2015	**6,254**	**1,672**	**7,926**
	Additions	43	131	174
	Disposals	-	(87)	(87)
	Depreciation expense	(156)	(398)	(554)
	Balance at 30 June 2016	**6,141**	**1,318**	**7,459**
	Additions	-	180	180
	Disposals	-	(34)	(34)
	Depreciation expense	(158)	(376)	(534)
	Balance at 30 June 2017	**5,983**	**1,088**	**7,071**

(c) **Revaluation of owner occupied property**

The valuation of strata title units was based on the assessment of their current market value. The current market value is assessed by comparing the value determined by the direct comparison method, with the value determined by the capitalisation method. The direct comparison method identifies comparable sales and compares equivalent rates per square metre with QBANK's property to establish market value. The capitalisation method capitalises the net income capable of being generated by the property at an appropriate yield to establish the current value fully leased.

The independent revaluations on 30 June 2015 were carried out by Herron Todd White (Brisbane Commercial) Pty Ltd. The directors are satisfied that there are no material changes in fair value for the year ended 30 June 2017. The fair value increment charged to other comprehensive income for the financial year ended 30 June 2017 was $Nil (2016: $Nil).

		2017 $'000	2016 $'000
NOTE 7: OTHER INFORMATION (cont)			
7.1	**PROPERTY, PLANT AND EQUIPMENT (cont)**		
	If revalued strata title units were stated at historical cost, amounts would be as follows:		
	Cost	2,113	2,113
	Accumulated depreciation	(1,180)	(1,127)
	Net book value	**933**	**986**

Fair value hierarchy

The fair value measurement for the owner occupied property has been categorised as a level 3 fair value based on the inputs to the valuation technique used. Details of the significant unobservable inputs used and relationship between unobservable inputs and fair value follow:

Description	Valuation approach	Unobservable Inputs	Range of Inputs 2017	Range of Inputs 2016	Relationship between unobservable inputs and fair value
Buildings (Property, plant and equipment)	Income approach based on estimated rental value of the property. Market rentals, outgoings and capitalisation rates are estimated by an external valuer based on comparable transactions and industry data.	Market Gross Rent ($/sqm) Outgoings ($/sqm) Capitalisation Rate	$450 to $472 (weighted average $451) $140 to $266 (weighted average $146) 9.00%	$450 to $472 (weighted average $451) $140 to $266 (weighted average $146) 9.00%	The higher the outgoings and capitalisation rate, the lower the fair value. The higher the gross rent, the higher the fair value.

Recognition and measurement

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

The owner occupied property is measured at its fair value, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

A revaluation increase is credited to other comprehensive income unless it reverses a revaluation decrease on the same asset previously recognised in profit or loss. A revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation increase on the same asset in the asset revaluation reserve. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

It is the policy of the group to have an independent valuation every three years, with annual appraisals being made by the directors.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses, if any.

Depreciation

The depreciable amount of all property, plant and equipment, including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives to the group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Property, plant and equipment is depreciated on a straight-line basis.

A summary of the rates used is:

Building	2.5%	Motor vehicles	25.0%
Computer hardware	25.0%-33.3%	Office furniture and equipment	15.0%
Leasehold improvements (or over life of lease)	10.0%		
Assets under $300 are not capitalised			

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

NOTE 7: OTHER INFORMATION (cont)

		2017 $'000	2016 $'000
7.2	**INVESTMENT PROPERTY**		
	Movements		
	Balance at beginning of year	9,356	10,306
	Disposals	-	(950)
	Closing balance	**9,356**	**9,356**
	Operating Leases Receivable		
	Future minimum lease payments expected to be received in relation to non-cancellable operating leases:		
	0-1 year	649	823
	1-5 years	393	413
	>5 years	-	-
		1,042	**1,236**

The property leases are non-cancellable leases with one to four year terms, with rent payable monthly in advance. Some contracts have options at the end of the term (and in some cases at end of first option period also) for an additional term of one to three years.

The group derived rental income of $926k (2016: $1,128k) and incurred direct operating expenses of $380k (2016: $568k) in connection with these investment properties, recognised in profit or loss.

Revaluation

The valuation of strata title units was based on the assessment of their current market value. The current market value is assessed by comparing the value determined by the direct comparison method, with the value determined by the capitalisation method. The direct comparison method identifies comparable sales and compares equivalent rates per square metre with the group's property to establish market value. The capitalisation method capitalises the net income capable of being generated by the property at an appropriate yield to establish the current value fully leased. Some of the smaller strata title units are valued on the direct comparison method, which uses comparable sale rates per square metre.

The independent revaluations on 30 June 2015 were carried out by Herron Todd White (Brisbane Commercial) Pty Ltd. The directors are satisfied that there are no material changes in fair value for the year ended 30 June 2017. The fair value decrement charged against net fair value loss on investment properties in the profit or loss for the financial year ended 30 June 2017 was $Nil (2016: $Nil).

Fair value heiarchy

The fair value measurement for the investment properties has been categorised as a level 3 fair value based on the inputs to the valuation technique used. Details of the significant unobservable inputs used and relationship between unobservable inputs and fair value follow:

Description	Valuation approach	Unobservable Inputs	Range of Inputs 2017	Range of Inputs 2016	Relationship between unobservable inputs and fair value
Investment properties	Income approach based on estimated rental value of the property. Market rentals, outgoings and capitalisation rates are estimated by an external valuer based on comparable transactions and industry data.	Market Gross Rent ($/sqm) Outgoings ($/sqm) Capitalisation Rate	$400 to $520 (weighted average $491) $170 to $266 (weighted average $206) 8.00% to 9.25% (weighted average 8.31%)	$400 to $520 (weighted average $491) $170 to $266 (weighted average $206) 8.00% to 9.25% (weighted average 8.31%)	The higher the outgoings and capitalisation rate, the lower the fair value. The higher the gross rent, the higher the fair value.
	Direct comparison approach based on estimated sale value of the property. Adopted sale rates are estimated by an external valuer based on comparable transactions and industry data.	Sale Rate ($/sqm)	$4,600 to $5,100 (weighted average $4,794)	$4,600 to $5,100 (weighted average $4,794)	The higher the sale rate, the higher the fair value.

NOTE 7: OTHER INFORMATION (cont)

7.2 INVESTMENT PROPERTY (cont)

Recognition and measurement

Investment property

Investment properties are held for rental and are initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the reporting date. Gains and losses arising from changes in fair values of investment properties are included in profit or loss as part of other income in the year in which they arise. Fair value is determined by independent valuation every three years, with annual appraisals being made by the directors.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

		2017 $'000	2016 $'000
7.3	**INTANGIBLE ASSETS**		
(a)	**Carrying amounts**		
	Computer software at cost	1,770	2,554
	Accumulated amortisation	(1,081)	(1,844)
	Closing balance	**689**	**710**
(b)	**Movements in carrying amounts**		
	Reconciliations of the carrying amounts of computer software between the beginning and end of the financial year are set out below.		
	Opening balance	710	674
	Additions	464	438
	Amortisation expense	(485)	(402)
	Closing balance	**689**	**710**

Recognition and measurement

Intangible assets

Computer software

Items of computer software which are not integral to the computer hardware owned by the group are classified as an intangible asset. Computer software acquired by the group is measured at cost less accumulated amortisation and accumulated impairment losses, if any. Computer software is amortised on a straight line basis over the expected useful life of the software, being three years. The computer software's residual value and useful life are reviewed, and adjusted if appropriate, at each year end date.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits of the computer software. All other expenditure is expensed as incurred.

		2017 $'000	2016 $'000
NOTE 7: OTHER INFORMATION (cont)			
7.4	**OTHER LIABILITIES**		
(a)	**Other payables**		
	Annual leave	296	350
	Clearing accounts	827	1,250
	Sundry creditors	878	812
	Deferred income	183	179
		2,184	**2,591**
(b)	**Provisions**		
	Provision for long service leave	369	482
	Provision for Directors retirement benefits	97	31
		466	**513**

Provision for long service leave comprises amounts payable which are both vested and not vested at the end of the reporting date and the amount and timing of the payments to be made when leave is taken is uncertain.

Directors' retirement benefits comprise amounts payable for service on the board of directors which are both vested and not vested at the end of the reporting date and the amount and timing of the payments to be made is uncertain.

Recognition and measurement

Employee benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to the end of the reporting period.

Short-term employee benefits

Liabilities for wages and salaries, bonuses and the value of fringe benefits received (including non-monetary benefits) which are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled, plus related on-costs. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long-term employee benefits

Liabilities for long service leave and annual leave which are not expected to be settled within twelve months of the end of the reporting period are recognised as provisions for employee benefits and are measured at the present value of the expected future payments to be made in respect of services provided to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salary and wage increases, experience of employee departures and periods of service. Expected future payments are discounted using corporate bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Regardless of when settlement is expected to occur, liabilities for long service leave and annual leave are considered as current liabilities if the group does not have an unconditional right to defer settlement for at least twelve months after the end of the reporting period.

Contributions are made by the group to employee superannuation funds and are recognised in profit or loss when incurred.

		2017	2016
7.5	**RELATED PARTIES**	**2017**	**2016**
(a)	**Key Management Personnel**	**$**	**$**
(i)	**Remuneration of key management personnel (KMP)**		
	Compensation of KMPs in total and for each of the following categories was as follows:		
	- Short term employee benefits	1,683,662	1,742,392
	- Post-employment benefits including superannuation contributions	188,399	256,999
	- Other long term benefits including long service leave provision and annual leave	67,748	175,266
	- Termination benefits	489,665	156,131
		2,429,474	**2,330,788**

Remuneration shown as short-term benefits means (where applicable) wages, salaries, sick leave, bonuses and value of fringe benefits received, but excludes out of pocket expense reimbursements.
All remuneration to Directors was approved by the members at the previous Annual General Meeting of QBANK.

		2017 $	2016 $
NOTE 7: OTHER INFORMATION (cont)			
7.5	**RELATED PARTIES (cont)**		
(ii)	**Loans to KMP and their close family members**		
	QBANK's policy for lending to KMP is that all loans are approved on the same terms and conditions that applied to members during the year for each class of loan. All loans disbursed to KMP were approved on the same terms and conditions as applicable to members for each class of loan. There are no loans that are impaired in relation to the loan balances with KMP. There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans that are impaired in relation to the loan balances with close family relatives of KMP.		
	Aggregate value of loans at year end	768,282	518,683
	Aggregate value of other credit facilities at year end	87,000	100,000
	Amounts drawn down included in the aggregate value	11,475	10,235
	Net balance available	75,525	89,765
	During the year the aggregate value of revolving credit facility limits granted or increased/(decreased)	(3,000)	(34,000)
	Interest and other revenue earned on loans and revolving credit facilities	28,146	16,531
(iii)	**Other transactions with KMP and their close family members**		
	KMP and their close family members have received interest on deposits with the QBANK during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar deposits to members of the QBANK.		
	Total value term and savings deposits at year end	907,782	1,670,989
	Total interest paid on these deposits during the year	13,858	31,152
	QBANK's policy for receiving deposits from other related parties and in respect of other related party transactions is that all transactions are approved and deposits accepted on the same terms and conditions that apply to members for each type of deposit. There are no benefits paid or payable to close family members of the KMP. There are no service contracts to which KMP or their close family members are an interested party.		

(b)	**Transactions with other related parties**		
	The following transactions occurred with Northpoint Body Corporate (Northpoint Brisbane CTS 7575). QBANK owns 33 of 76 (43.42%) (2016: 33 of 76, 43.42%) strata titled lots of Northpoint Body Corporate, and have 7,207 (2016: 7,207) voting entitlements out of 13,227 voting entitlements (54.5%) (2016: 54.5%).		
	Unsecured loans to other related parties		
	An unsecured loan was made at a discounted interest rate to the body corporate. The interest rate charged by QBANK was 1.36% below comparable offerings provided by other financiers at the time. The discount was provided due to the propriety interest that QBANK holds in the Northpoint Body Corporate. All other terms of the loan are provided on a commercial basis similar to comparable offerings provided by other financiers.		
	Aggregate value of loans at year end	1,243,905	1,543,149
	Interest and other revenue earned on loans	96,553	117,461
	Other transactions with related parties		
	Deposits are held under the same conditions as normal depositors.		
	Total value term and savings deposits at year end	2,113	2,085
	Total interest paid on these deposits during the year	28	74

NOTE 7: OTHER INFORMATION (cont)

7.6 REMUNERATION OF AUDITORS

	2017 $	2016 $
Remuneration of the auditor for:		
- Auditing and reviewing financials statements	107,500	104,000
- Auditing and review of prudential returns	31,000	30,250
- Taxation services	32,693	26,359
- Other business consulting services	2,614	3,035
	173,807	**163,644**

7.7 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(i) **Fair Value Hierarchy**

The QBANK measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly quoted market prices in active markets for similar instruments;

– quoted market prices in active markets for similar instruments

– quoted prices for identical or similar instruments in markets that are considered less than active; or

– other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(ii) **Fair Value Estimates**

The fair value estimates were determined by the following methodologies and assumptions:

(a) Cash and cash equivalents and other receivables

The carrying values of cash and cash equivalents and trade and other receivables approximate their fair value as they are short term in nature or are receivable on demand.

(b) Investment securities

The financial assets designated as financial assets at fair value through other comprehensive income consist of shares in unlisted entities which are not actively traded. The fair value of these assets has been determined using a valuation technique taking into consideration transacted prices for the shares and the net asset value per share of the underlying investment. QBANK uses its judgement to select a method and make assumptions that are mainly based on the market conditions existing at the end of the reporting period. The financial assets at fair value through other comprehensive income is categorised at Level 3 in the fair value hierarchy given these valuation variables are not directly observable.

Carrying values for financial assets at amortised cost approximate fair values due to short-term maturities of these securities.

(c) Loans and advances

The carrying value of loans and advances is net of specific provisions for impairment.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the fair value. The fair value for fixed rate loans was calculated by utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June.

(d) Borrowings

The carrying value of long term borrowings approximate their fair value as they have variable interest rates.

(e) Deposits and other payables

The carrying values of other payables approximate their fair value as they are short term in nature.

The carrying values of call deposits and variable rate deposits approximate their fair values.

Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of fixed rate deposits. The discount rates applied were based on the current benchmarking rate offered for the actual remaining term of the portfolio.

(f) Derivatives

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows.

NOTE 7: OTHER INFORMATION (cont)

7.7 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (cont)

(iii) Financial instruments measured at fair value - Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2017				
Financial assets at fair value through other comprehensive income	-	-	2,397	2,397
Derivative liabilities held for risk management	-	(90)	-	(90)
2016				
Financial assets at fair value through other comprehensive income	-	-	2,397	2,397
Derivative liabilities held for risk management	-	(211)	-	(211)

(iv) Financial instruments not measured at fair value - Fair value hierarchy

The following table sets out the fair value of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each instrument is categorised.

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	$'000	$'000	$'000	$'000	$'000
2017					
Financial assets					
Loans and advances	-	681,851	-	681,851	675,703
Financial liabilities					
Deposits	-	730,449	-	730,449	728,528
2016					
Financial assets					
Loans and advances	-	659,707	-	659,707	651,023
Financial liabilities					
Deposits	-	712,939	-	712,939	710,744

(v) Valuation techniques used to derive Level 2 fair values recognised in the financial statements

The following table sets out the valuation techniques used to measure fair value within Level 2, including a description of the significant inputs used.

Description	Valuation approach and inputs used
Derivatives – interest rate swaps	Present value of the estimated future cash flows based on observable yield curves.

NOTE 7: OTHER INFORMATION (cont)

7.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

(a) Consolidated Financial Statements

Basis of Consolidation

The consolidated financial statements incorporate the assets, liabilities, income and expenses of all subsidiaries of QBANK ('the Company' or 'Parent Entity' or 'the ADI') as at 30 June and the results of all subsidiaries for the year then ended. The ADI and its subsidiaries together are referred to in these financial statements as 'the group'.

Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

Subsidiaries

Subsidiaries are all entities, including special purpose entities, over which the group has control. The group has control over an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to use its power to affect these returns. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The group not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an entity. The group re-assesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control

QPCU Heroes Trust No 1 is a 100% (2016: 100%) owned subsidiary of QBANK incorporated and domiciled in Australia. On 2 July 2015 the bank transferred loans and advances to the QPCU Heroes Trust No 1. QBANK has retained substantially all the risk and rewards of ownership of the relevant loans and advances as it has retained credit risk and interest rate risk. Due to the retention of substantially all the risk and rewards of ownership QBANK continues to recognise the transferred assets within loans and advances and the transfer is accounted for as a secured financing transaction. As such the Parent Entity and consolidated balances are the identical and have not been presented separately.

Transactions eliminated on consolidation

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the group.

(b) Financial Assets and Financial Liabilities

Introduction

(i) Initial recognition

The group initially recognises loans and advances, deposits, debt securities and subordinated liabilities on the date that they are originated. All other financial assets and financial liabilities (including financial assets and financial liabilities designated at fair value through the profit and loss) are initially recognised on trade date when the related contractual rights or obligations exist.

(ii) De-recognition

The group de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cashflows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. The group de-recognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

For details of the group's policy on securitisation refer to Note 4.6.

(iii) Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the Statement of Financial Position when, and only when, the group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the financial asset and settle the financial liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(iv) Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Identification and measurement of impairment

Refer to Note 1(e) for details of impairment measurement for loans and advances. Refer to succeeding paragraph for details of impairment measurement for other financial assets.

Application

Cash and cash equivalents - refer to Note 4.1

Loans and advances - refer to Note 3.1

Investment securities

(i) Fair value through other comprehensive income - refer to Note 4.2 (a)

(ii) Amortised cost - refer to Note 4.2 (b)

Deposits - refer to Note 4.3

Borrowings - refer to Note 4.4

NOTE 7: OTHER INFORMATION (cont)

7.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) Fair Values

Fair values may be used for financial and non-financial asset and liability measurement as well as sundry disclosures.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the group.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

In measuring fair value, the entity uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(d) Impairment of Assets (Excluding Financial Assets)

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in profit or loss (except for items carried at the revalued amount).

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(e) Leases

Lease income from operating leases where the group is a lessor is recognised in profit or loss on a straight-line basis over the lease term. The respective leased assets are included in the Statement of Financial Position based on their nature.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. 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. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

7.9 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED DURING THE YEAR

The group applied, for the first time, certain new and amended accounting standards and interpretations which are effective for annual periods beginning on or after 1 July 2016. There are no new and amended accounting standards and interpretations became effective as of 1 July 2016 that has material impact to the group.

NOTE 7: OTHER INFORMATION (cont)

7.10 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the entity. The entity's assessment of the impact of these new standards and interpretations is set out below.

New/revised pronouncements	Nature of change	First year end of application	Impact
AASB 9 *Financial Instruments* (December 2014)	The AASB has issued the complete AASB 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. This supersedes AASB 9 (issued in December 2009-as amended) and AASB 9 (issued in December 2010).	30 June 2019	AASB 9 may have a potential increase in the entity's loans and advances provisioning. The change is applied retrospectively; however comparatives need not be retrospectively restated. Instead, the cumulative effect of applying the change for the first time is recognised as an adjustment to the opening balance of retained earnings on 1 July 2018.
AASB 15 *Revenue from Contracts with Customers*	The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.	30 June 2019	The group is in the process of assessing the impact of the new standard but does not expect a significant impact as most of the group's revenue will be outside the scope of AASB 15.
AASB 16 Leases	Except for short-term leases (less than 12 months from commencement date, including extension options), and 'low value' items, all leases will be capitalised on the balance sheet by recognising a 'right-of-use' asset and a lease liability for the present value of the obligation. This means that we will no longer see straight-line 'rental' expense in profit or loss (except for short-term leases and low value items). All leases will incur a frontend loaded expense, Comprising depreciation on The right-of-use asset, and interest on the lease liability. When initially measuring the right-of-use asset and lease liability, non-cancellable lease payments (including inflation-linked payments), as well as payments for option periods which the entity is reasonably certain to exercise, must be included in the present value calculation. There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis. No changes to accounting for entities as a lessor, as it retains the accounting for operating and finance leases for lessors.	30 June 2020	To the extent that the group, as lessee, has significant operating leases outstanding at the date of initial application, 1 July 2019, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments. Thereafter, earnings before interest, depreciation, amortisation and tax (EBITDA) will increase because operating lease expenses currently included in EBITDA will be recognised instead as amortisation of the right-of use asset, and interest expense on the lease liability. However, there will be an overall reduction in net profit before tax in the early years of a lease because the amortisation and interest charges will exceed the current straight-line expense incurred under AASB 117 Leases. This trend will reverse in the later years.

Directors' Declaration

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

The Directors of the QPCU Limited declare that:

(a) The financial statements comprising the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and accompanying notes of QPCU Limited are in accordance with the Corporations Act 2001, and:

(i) give a true and fair view of the financial position of QPCU Limited as at 30 June 2017 and of its performance for the year ended on that date, and

(ii) comply with Australian Accounting Standards and Corporations Regulations 2001.

(b) QPCU Limited has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

(c) In the Directors' opinion, there are reasonable grounds to believe that the QPCU Limited will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the Directors in accordance with a resolution of the Board.

Daryll Morton
Chairman

Ray Brownhill
Vice Chairman

Dated 26th October 2017

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INDEPENDENT AUDITOR'S REPORT

To the members of QPCU Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of QPCU Limited, which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of QPCU Limited, 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 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Director's report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal 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.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

TJ Kendall

T J Kendall

Director

Brisbane, 26th October 2017

North Quay
Level 1, 231 North Quay, Brisbane
Mon to Fri: 8.45am to 4.30pm

Kedron
Emergency Services Complex
Access limited to Queensland Government Employees
Corner of Kedron Park Rd and Park Rd, Kedron
Mon to Fri: 10am to 2pm

Oxley
Queensland Police Academy
Access limited to QPS staff and recruits
Rudd St, Oxley
Mon to Fri: 10am to 2pm

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