QPCU LIMITED T/A QBANK

Annual Report 2018-19

QBANK

POLICE • FIRE • HEALTH • PUBLIC SERVICE • JUSTICE

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

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

POSTAL ADDRESS
PO Box 13003, George Street QLD 4003

Directors' Report

Your Directors present their report on the affairs of QPCU Limited (QBANK) for the financial year ended 30 June 2019.

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; and Global Head of Business Risk Review, Standard Chartered Consumer Bank. He is currently Head of SME and Risk, Sabre Advisors.

Special responsibilities:
- Chair of the Board since November 2016
- Member of the Audit and Finance Committee
- Member of the Risk and Compliance Committee from July 2019

RAY BROWNHILL (VICE CHAIR)

LLB, Grad Cert App Mgt, GAICD

Non-Executive Director since 2013.

Mr Brownhill is currently an Inspector of the Queensland Police Service and Director of Lives Lived Well (not for profit organisation). Mr Brownhill is also a qualified Barrister at Law (admitted in the Queensland Supreme Court and Federal Court of Australia).

Special responsibilities:
- Chair of the Governance and Remuneration Committee

IAN LEAVERS

GAICD, JP (Qual)

Non-Executive Director since 2013.

Mr Leavers is currently General President and CEO of the Queensland Police Union of Employees, a current serving officer with the Queensland Police Service, Director of WorkCover Queensland, Vice-President of the Police Federation of Australia and Director of the Ipswich Turf Club.

Special responsibilities:
- Member of the Governance and Remuneration Committee

PAUL WILSON, APM

GAICD

Non-Executive Director since 2013.

Mr Wilson was formerly an Assistant Commissioner of the Queensland Police Service.

Special responsibilities:
- Member of the Risk and Compliance Committee
- Member of the Audit and Finance Committee

ANDY HENDERSON, APM

BA, GAICD

Non-Executive Director since 2014.

Mr Henderson was formerly an Assistant Commissioner of the Queensland Police Service. He is currently the Chair of Crime Stoppers (QLD) and Director of Mooloolaba Marina Limited.

Special responsibilities:
- Member of the Governance and Remuneration Committee

DAN KEATING

BA, MPubAd, Grad Cert App Mgt, GAICD

Non-Executive Director since 2014.

Mr Keating was a former Superintendent of the Queensland Police Service; and former Senior Response and Recovery Liaison Officer of the Queensland Reconstruction Authority.

Special responsibilities:
- Chair of the Risk and Compliance Committee

NEVILLE IDE

Bus (Acctg), MComm (Acctg and Fin), FCPA, FAICD

Non-Executive Director since 7 January 2019.

Mr Ide's industry knowledge and experience covers banking, insurance, infrastructure and corporate treasury including debt and equity capital markets, balance sheet structuring and financial risk management. His most recent executive role was as Group Treasurer Suncorp Metway Limited. Mr Ide has served as a non-executive director on a number of public and private company boards since 2006, including QBANK from 2013 to 2016. He is also on the Board of Queensland Treasury Corporation and provides consultancy services to Cryptoloc Technology Pty Ltd.

Special responsibilities:
- Chair of the Audit and Finance Committee from January 2019

JILLIAN STEINKAMP, APM

LLB, Grad Cert App Mgt, GAICD

Non-Executive Director since 2009. Ceased as Director 24 July 2019.

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; former Branch Official of the Queensland Police Union of Employees; and former Chair of the Board of QBANK from November 2012 to November 2016. Currently she is the State Treasurer of the Queensland Retired Police Association Inc.

Special responsibilities:
- Member of the Risk and Compliance Committee
- Member of the Audit and Finance Committee

JOHN JUST, PSM

BBus, FCPA, FAICD

Non-Executive Director since 2010. Ceased as Director 22 November 2018.

Mr Just was formerly Deputy Chief Executive (Resources Management) of the Queensland Police Service and Director Finance Division of the Queensland Police Service.

Special responsibilities:
- Chair of the Audit and Finance Committee until November 2018

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

JOSIE KING

B Com, LLB (Hons I), GradDip ACG, FGIA, FCIS

Chief Risk and Governance Officer (incorporating the position of Company Secretary)

Company Secretary since June 2015.

Ms King is a qualified Company Secretary and solicitor with experience of Risk Management, Compliance, 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 a fellow of the Governance Institute of Australia.

All directors and the company secretary have held their office from 1 July 2018 to the date of this report unless otherwise stated.

Directors' Meeting Attendance

Director	Board		Audit and Finance Committee		Risk and Compliance Committee		Governance and Remuneration Committee	
	E	A	E	A	E	A	E	A
D Morton	12	12	4	4	4	4	4	4
R F Brownhill	12	11	-	-	-	-	4	4
J M Steinkamp	12	12	3	3	4	4	-	-
J C Just	4	4	4	2	-	-	-	-
I Leavers	12	9	-	-	-	-	4	3
P A Wilson	12	11	4	4	4	4	-	-
A Henderson	12	11	-	-	-	-	4	4
D Keating	12	12	-	-	4	4	-	-
N Ide	6	5	2	2	-	-	-	-

E = Eligible to Attend   A= Attended

Directors' Report

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, the protection of life, the protection of property or the provision of paid or unpaid community service related to these matters. 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 $2.60m (2018: $3.44m).

Dividends

No dividends have been paid or declared during the year or subsequent to year end.

Review of Operations

During the year, QBANK was awarded 'Best Mutual' in the RFi Group Australian Lending Awards. This award recognised QBANK for its commitment to improving the customer experience for Members, consistently presenting the values and benefits of member-owned banking in everything that it does. QBANK was also a finalist in the 2019 Australian HR Awards (Employer of Choice, 1-99 Employees category), recognising QBANK as one of Australia's best places to work.

This year's operating environment saw increased political and regulatory activity, weaker domestic economic conditions, historically low interest rates, a soft housing market and intense competition. The year ended with the RBA easing monetary policy by 0.25% in both June and July 2019. While the objective is to support sustainable growth, the domestic economy has entered uncharted territory. The low interest rate regime will present challenges to the profitability of banks in the foreseeable future.

As widely reported, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry handed down its final report. QBANK supports the industry being accountable and the report recommendations more generally. QBANK is owned by the Members it serves. And, like our Members, we strive daily for the highest standards of service, respect and ethical Banking. Our profits are applied both to sponsorships in our Member communities and re-investment back into the Bank, in the form of award-winning products, services, low rates and low fees.

QBANK's after-tax profit was $2.60m, down 24.4% from $3.44m in 2018. Adjusting for one-off items in 2018, the result was 20.0% down, largely due to the difficult external environment. The adjusted result is generally in line with the expected performance of peers. QBANK takes pride in its continuing tight control over both credit quality and expense management. Over the year, assets (including Loans & Advances) grew $18.2m or 2.2%. Retail deposits grew $46.3m or 8.1%, substantially strengthening the Bank's overall funding position.

Net interest income increased marginally by $0.03m or 0.17% despite the compression of net interest margin from 2.14% to 2.06%. Other revenue and income decreased by $0.73m or 15.27% due to the previous year's inclusion of a $0.27m fair value gain on investment property holdings, a $0.24m decrease in fee and commission income, and a $0.20m decrease in rental income. Total operating expenses, excluding impairment losses, increased by only 0.7%, well below CPI.

Impairment loss on loans and advances increased by $0.20m off a very low base, primarily due to the adoption of the new accounting standard AASB9 Financial Instruments. Under the standard, loss provisioning is based on modelled future losses rather than actual credit deterioration. The results from the expected credit loss model will be reviewed against actual losses incurred and continually refined over time. Even under the new standard, impairment losses represent a very small portion of gross loans and advances, evidencing the very high quality of the bank's loan portfolio.

As a member-owned bank, retained earnings remain QBANK's main source of capital. It is essential for QBANK to generate enough profit to support growth, strategic investment and to maintain prudent buffer of capital for unexpected unfavourable events. During the year, QBANK's total capital adequacy ratio increased from 19.93% to 20.70%, comfortably above the minimum prudential requirements.

QBANK's commitment to our members and their financial wellbeing is most recently evidenced by our free Financial Education seminars. To date, we have delivered 170 workplace seminars to over 4,200 individuals.

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 Period

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

Likely Developments and Results

QBANK will continue its commitment to Member-owned financial services and the best principles of mutuality.

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

QBANK's strategy will remain centred on the achievement of sustainable profitable growth through maintaining strong relationships with and providing value to its 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; fostering a strong risk culture; attracting and retaining the right people; and building a high-performance culture.

Consistent with this strategy, and with the continued support of our members, QBANK expects to achieve low single digit growth over the coming year with lower levels of profitability due to weaker economic conditions, record low interest rates and a challenging operating environment.

QBANK's activities expose it to a variety of financial and non-financial risks and management of these risks is critical to overall results. 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 the future prospects of the bank include increasing or changed regulation resulting in higher costs; lower income and restrictions on scope of operations; emerging technologies impacting market competitiveness; increasing competition from existing and/or new market entrants, and 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 Director, 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.

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 on Behalf of the Company

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.

Directors’ Report

Auditor’s Independence Declaration

The auditor’s independence declaration for the year ended 30 June 2019 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
Chair

Ray Brownhill
Vice Chair

Signed and dated this 24th day of October 2019.

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

As lead auditor of QPCU Limited T/A QBANK for the year ended 30 June 2019, 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.

This declaration is in respect to QPCU Limited T/A QBANK and the entities it controlled during the year.

T J Kendall

Director

BDO Audit Pty Ltd

Brisbane, 24th October 2019

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

QPCU LIMITED T/A QBANK

Financial Statements

30 JUNE 2019

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 2019)

	Note	2019 $'000	2018 $'000
Interest income	2.1	32,904	32,577
Interest expense	2.2	(15,620)	(15,321)
Net interest income		**17,284**	**17,256**
Other income	2.3	4,061	4,793
Impairment loss on loans and advances	3.2(a)	(220)	(25)
Employee benefits expense		(7,107)	(6,913)
Occupancy expense		(1,101)	(1,089)
Depreciation and amortisation expense	2.4	(833)	(961)
Other expenses		(8,505)	(8,454)
Profit before income tax		**3,579**	**4,607**
Income tax expense	**2.5(a)**	**(975)**	**(1,169)**
Profit for the year		**2,604**	**3,438**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net changes in the fair value of cash flow hedges		13	75
Income tax relating to this item	2.5(c)	(4)	(22)
Items that will not be reclassified to profit or loss			
Net gain on revaluation of land and buildings		-	860
Income tax relating to this item		-	(258)
Net gain on revaluation of financial assets through other comprehensive income		-	170
Income tax relating to this item		-	(51)
Other comprehensive income for the year, net of income tax		**9**	**774**
Total comprehensive income for the year		**2,613**	**4,212**

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

STATEMENT OF FINANCIAL POSITION (as at 30 June 2019)

	Note	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	4.1(a)	32,272	21,783
Other receivables		828	680
Income tax receivable		79	-
Financial assets at amortised cost	4.2(b)	106,853	100,930
Financial assets at fair value through other comprehensive income	4.2(a)	2,568	2,568
Loans and advances	3.1	697,306	695,109
Property, plant and equipment	7.1	7,260	7,671
Investment properties	7.2	9,624	9,624
Intangible assets	7.3	385	397
Other assets		712	949
Total assets		**857,887**	**839,711**
Liabilities			
Deposits	4.3	730,571	735,298
Other payables	7.4(a)	4,207	3,155
Income tax payable		-	381
Borrowings	4.4(a)	40,000	20,000
Deferred tax liabilities	2.5	1,836	2,064
Derivatives	4.5	-	16
Provisions	7.4(b)	617	542
Total liabilities		**777,231**	**761,456**
Net assets		**80,656**	**78,255**
Equity			
Redeemed preference share capital account		388	379
Reserves		6,143	6,137
Retained earnings		74,125	71,739
Total equity		**80,656**	**78,255**

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

STATEMENT OF CHANGES IN EQUITY (For the year ended 30 June 2019)

	Note	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 2017		**365**	**3,798**	**1,575**	**(62)**	**68,367**	**74,043**
Comprehensive income for the year							
Profit for the year		-	-	-	-	3,438	3,438
Other comprehensive income							
- Net gain/(loss) on revaluation of land and buildings, net of tax		-	602	-	-	-	602
- Net gain/(loss) on revaluation of financial assets through OCI, net of tax		-	119	-	-	-	119
- Net changes in cash flow hedges, net of tax		-	-	-	53	-	53
Total comprehensive income for the year		**-**	**721**	**-**	**53**	**3,438**	**4,212**
Transfers							
- Reserve for credit losses		-	-	52	-	(52)	-
- Redeemed preference share capital		14	-	-	-	(14)	-
Total transfers		**14**	**-**	**52**	**-**	**(66)**	**-**
Total transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2018		**379**	**4,519**	**1,627**	**(9)**	**71,739**	**78,255**

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

STATEMENT OF CHANGES IN EQUITY (For the year ended 30 June 2019)

	Note	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 1 July 2018		**379**	**4,519**	**1,627**	**(9)**	**71,739**	**78,255**
Impact of adopting AASB 9 at 1 July 2018	**1.3(i)**	**-**	**-**	**-**	**-**	**(212)**	**(212)**
Restated balance as at 1 July 2018		**379**	**4,519**	**1,627**	**(9)**	**71,527**	**78,043**
Comprehensive income for the year							
Profit for the year		-	-	-	-	2,604	2,604
Other comprehensive income							
- Net changes in cash flow hedges, net of tax		-	-	-	9	-	9
Total comprehensive income for the year		**-**	**-**	**-**	**9**	**2,604**	**2,613**
Transfers							
- Reserve for credit losses		-	-	(3)	-	3	-
- Redeemed preference share capital		9	-	-	-	(9)	-
Total transfers		**9**	**-**	**(3)**	**-**	**(6)**	**-**
Total transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2019		**388**	**4,519**	**1,624**	**-**	**74,125**	**80,656**

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

STATEMENT OF CASH FLOWS (For the year ended 30 June 2019)

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Interest received		32,904	32,577
Dividends received		143	143
Fees and commissions received		3,312	4,486
Interest paid		(15,412)	(15,361)
Payments to suppliers and employees		(15,904)	(15,682)
Income taxes paid		(1,667)	(853)
Other income		900	1,126
Net movement in financial assets at fair value through other comprehensive income		-	(171)
Net movement in financial assets at amortised cost		(5,923)	(4,249)
Net movement in loans and advances		(2,657)	(19,388)
Proceeds/(payments) - borrowings		20,000	7,710
Net movement in deposits		(4,935)	6,810
Net cash provided by/(used in) operating activities	**4.1(b)(iii)**	**10,761**	**(2,852)**
Cash flows from investing activities			
Net movement in other assets		129	(110)
Payments for property, plant and equipment		(54)	(251)
Proceeds from sale of property, plant and equipment, and intangibles		14	(96)
Payments for intangibles		(361)	(189)
Net cash used in investing activities		**(272)**	**(646)**
Net cash used in financing activities		**-**	**-**
Total net increase/(decrease) in cash and cash equivalents		**10,489**	**(3,498)**
Cash and cash equivalents at the beginning of the financial year		**21,783**	**25,281**
Cash and cash equivalents at the end of the financial year	**4.1(b)(i)**	**32,272**	**21,783**

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 "the bank") and its subsidiaries (referred to as "the group" or "QBANK") for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of directors on 24 October 2019. Refer Note 7.8(a) for basis of consolidation.

The registered office and principal 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 transactional 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.

This is the first set of the group's annual financial statements in which AASB 9 Financial Instruments has been fully adopted and AASB 15 Revenue from Contracts with Customers has been applied. Changes to significant accounting policies are described in Note 1.3.

(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 ADOPTION OF NEW ACCOUNTING STANDARDS

The group has initially adopted AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers from 1 July 2018. A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on the group's financial statements.

The group early adopted parts of AASB 9 Financial Instruments (2010) with an initial application date of 1 July 2014. This version of AASB 9 replaced the provisions of AASB 139 Financial Instruments: Recognition and Measurement that related to the classification and measurement of financial assets, (except for the application of expected credit loss measurement of impairment) and financial liabilities and hedge accounting.

Due to the transition method chosen by the group in applying AASB 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets at amortised cost (see Note 3.2);
- additional disclosures related to AASB 9 (see Note 3.2); and
- additional disclosures related to AASB 15 (see Note 2.3).

Except for the changes discussed below, the group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

AASB 9 Financial Instruments

The group has adopted AASB 9 Financial Instruments in full with a date of initial application of 1 July 2018. The requirements of AASB 9 represent a significant change from AASB 139 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The group has not restated comparative information for 2018 for financial instruments in the scope of AASB 9. Therefore, the comparative information for 2018 is reported under AASB 139 in relation to measurement of impairment of losses and advances, loan commitments, certain financial guarantee contracts and is not comparable to the information presented for 2019. Differences arising from the adoption of AASB 9 have been recognised directly in opening retained earnings and reserves (as applicable) as at 1 July 2018 and are disclosed below.

To reflect the differences between AASB 9 and AASB 139, AASB 7 Financial Instruments: Disclosures were updated and the group has adopted it, together with AASB 9, for the year beginning 1 July 2018. Changes include:

- Transition disclosures, as shown in below; and
- Detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used as set out in Note 5.2 B.

The key changes to the group's accounting policies resulting from its adoption of AASB 9 are summarised below.

NOTE 1: BASIS OF PREPARATION (cont)

1.3 ADOPTION OF NEW ACCOUNTING STANDARDS (cont)

(i) Changes to impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. The ECL impairment model applies to financial assets measured at amortised cost (loans and advances and deposits with ADIs) and loan commitments, but not to equity investments. Under AASB 9, credit losses are recognised earlier than under AASB 139.

The group applies a three-stage approach to measuring expected credit losses (ECL). Assets migrate through the following three stages based on the change in credit quality since initial recognition.

– Stage 1: 12-months ECL

  For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

– Stage 2: Lifetime ECL – not credit impaired

  For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

– Stage 3: Lifetime ECL – credit impaired

  Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Assessment of significant increase in credit risk

At each reporting date, the group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the group uses internally available and forecast information to assess deterioration in credit quality of a financial asset.

The group assess whether the credit risk on financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measuring ECL

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at an effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the group and all the cash flows that the group expects to receive. The amount of the loss is recognised using a provision for impairment account.

The group considers its historical loss experience and adjusts this for current observable data. In addition, the group uses reasonable and supportable forecasts of future economic conditions including experienced judgment to estimate the amount of an expected impairment loss. AASB 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and property prices and requires an evaluation of both current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including forecasts of future economic conditions are reviewed regularly.

If, in the subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment reverts from lifetime ECL to 12-months ECL.

Overall, impairment under AASB 9 results in an earlier recognition of credit losses that under AASB 139.

For more details of how the group applies the impairment requirements of AASB 9, see Note 3.2 and Note 5.2 B.

(ii) Reconciliation of statement of financial position balances from AASB 139 to AASB 9

The following table analyses the impact, net of tax, of transition to AASB 9 on financial assets, reserves and retained earnings.

	AASB 139 opening balance as at 30 June 2018	Remeasurements	AASB 9 opening balance as at 1 July 2018
	$'000	$'000	$'000
Loans and advances at amortised cost			
Opening balance	695,109	-	695,109
Increase in provision for impairment under expected credit loss	-	(212)	(212)
Total Loans and advances at amortised cost	**695,109**	**(212)**	**694,897**

NOTE 1: BASIS OF PREPARATION (cont)

	AASB 139 opening balance as at 30 June 2018	Remeasurements	AASB 9 opening balance as at 1 July 2018
	$'000	$'000	$'000
Retained earnings			
Opening balance	71,739	-	71,739
Increases (decreases):			
- Re-measurements due to impairment (after-tax)	-	(212)	(212)
Total retained earnings	**71,739**	**(212)**	**71,527**

The following table is a reconciliation of the prior period's closing impairment allowance in accordance with AASB 139 to the opening impairment allowance determined in accordance with AASB 9 as at 1 July 2018. Changes to the impairment allowance under AASB 9 are due to the remeasurement using the expected credit loss requirements.

Measurement category	Note	AASB 139 opening balance as at 30 June 2018	Remeasurements	AASB 9 opening balance as at 1 July 2018
		$'000	$'000	$'000
Provision on cash and cash equivalents at amortised cost	4.1	-	-	-
Provision on deposits with ADIs at amortised cost	4.2(b)	-	-	-
Provision on loans and advances at amortised cost	3.2	127	212	339
Provision on investment securities (1)	4.2(a)	-	-	-
Total provision for impairment		**127**	**212**	**339**

(1) Included within the fair value through other comprehensive income

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations.
The group initially applied AASB 15 on 1 July 2018 retrospectively in accordance with AASB 108 without any practical expedients. The timing or amount of the group's fee and commission income from contracts with customers was not impacted by the adoption of AASB 15.
The impact of AASB 15 was limited to the new disclosure requirements (see Note 2).

1.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

- Impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL - refer to Note 3.2 (applicable to 2019 only)
- Determination of fair value of non-financial assets with significant unobservable inputs - refer to Notes 7.1(c) and 7.2
- Determination of fair value of financial instruments with significant unobservable inputs - refer to Note 7.7

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.

		2019 $'000	2018 $'000
NOTE 2: FINANCIAL PERFORMANCE			
2.1	**INTEREST INCOME**		
(i)	***Financial assets at amortised cost***		
	Cash and cash equivalents	399	368
	Financial assets at amortised cost	2,566	2,301
	Loans and advances	29,741	29,754
	Deferred loan fee income	175	68
	Other	-	1
		32,881	**32,492**
(ii)	***Financial assets at fair value***		
	Interest rate swaps	23	85
		23	**85**
	Total interest income	**32,904**	**32,577**
2.2	**INTEREST EXPENSE**		
(i)	***Financial liabilities at amortised cost***		
	Deposits from wholesale depositors	3,478	3,829
	Deposits from retail members	11,157	10,665
	Securitised loans	-	385
	Other borrowings	947	283
		15,582	**15,162**
(ii)	***Financial liabilities at fair value***		
	Interest rate swaps	38	159
		38	**159**
	Total interest expense	**15,620**	**15,321**

NOTE 2: FINANCIAL PERFORMANCE (cont)

Recognition and measurement

Interest income and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018). The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance (or impairment allowance before 1 July 2018).

In calculating interest income and interest expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3.2 and Note 5.2 B

Presentation

Interest income and interest expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and interest expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

	2019 $'000	2018 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)		
2.3 OTHER INCOME		
Dividends received	143	143
Fees and commissions	3,018	3,258
Net fair value gain on investment properties (refer Note 7.2)	-	268
Bad debts recovered	15	27
Rental income from investment properties (refer Note 7.2)	692	895
Other	193	202
Total other revenue and income	**4,061**	**4,793**

Recognition and measurement

Fees and commissions income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Loan fees that are recognised using the effective interest method are included with loan balances in the consolidated statement of financial position.

Other fee and commission income – including account servicing fees, and loan discharge and administration fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

Dividend income is recognised on an accruals basis when the group's right to receive the dividend is established. Dividends are presented in net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment. From 1 July 2018, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

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).

	2019 $'000	2018 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)		
2.4 EXPENSES		
Depreciation and amortisation expense		
Amortisation of intangible assets (refer Note 7.3)	372	451
Depreciation of property, plant and equipment		
- owner occupied property (refer Note 7.1)	167	157
- plant and equipment (refer Note 7.1)	294	353
	833	**961**
Other expenses		
General and administration	1,117	1,181
Marketing & promotion	1,138	958
Member service costs	2,664	2,708
Net loss on disposal of non-current assets:		
- property, plant and equipment	(10)	31
Employee benefits expense		
Superannuation expenses	523	506

		2019 $'000	2018 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)			
2.5	**TAXATION**		
(a)	**Reconciliation of income tax expense to prima facie tax payable:**		
	Tax at the Australian corporate tax rate of 27.5% (2018: 30%):	984	1,382
	Add Tax effect of:		
	Non-deductible entertainment	9	14
	Underprovision for income tax in prior year	16	15
	Other assessable income	16	-
		1,025	**1,411**
	Less Tax effect of:		
	Tax offset for fully franked dividends	(39)	(43)
	Tax building depreciation and building allowance	(11)	(11)
	Corporate tax rate change	-	(188)
		(50)	**(242)**
	Income tax expense	**975**	**1,169**
(b)	**Major components of tax expense:**		
	Current tax	1,191	1,416
	Deferred tax	(232)	(262)
	Underprovision for income tax in prior year	16	15
		975	**1,169**
(c)	**Income tax relating to items of other comprehensive income**		
	Deferred tax		
	Net changes on revaluation of land and buildings	-	(258)
	Net changes on revaluation of financial assets through other comprehensive income	-	(51)
	Net changes in cash flow hedge	(4)	(22)
		(4)	**(331)**
(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 corporate tax rate of 27.5% (2018: 30%)	**26,706**	**25,437**
(e)	**Deferred Tax Assets**		
	Deferred tax assets comprise temporary differences attributable to:		
	Employee benefits	262	259
	Accrued expenses	297	288
	Derivatives/ hedge reserve	-	5
	Prepayments	(35)	(35)
	Provision for impairment	133	38
	Corporate tax rate change	-	(46)
	Total deferred tax assets	**657**	**509**
	The movement in deferred tax assets for each temporary difference during the year is as follows:		
	Employee benefits		
	Opening balance	237	229
	Change recognised in profit or loss	25	30
	Closing balance	**262**	**259**
	Accrued expenses		
	Opening balance	264	240
	Change recognised in profit or loss	33	48
	Closing balance	**297**	**288**

		2019 $'000	2018 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)			
2.5	**TAXATION (cont)**		
	Derivatives/hedge reserve		
	Opening balance	4	27
	Charge recognised in other comprehensive income	(4)	(22)
	Closing balance	**-**	**5**
	Prepayments		
	Opening balance	(31)	(34)
	Change recognised in profit or loss	(4)	(1)
	Closing balance	**(35)**	**(35)**
	Provision for impairment		
	Opening balance	35	70
	Change recognised in profit or loss	98	(32)
	Closing balance	**133**	**38**
	Corporate tax rate change	-	(46)
	Deferred tax assets closing balance	**657**	**509**
(f)	**Deferred Tax Liabilities**		
	Deferred tax liabilities comprise temporary differences attributable to:		
	Revaluation of investment properties	1,547	1,687
	Revaluation of financial assets through other comprehensive income	47	51
	Depreciation	(387)	(384)
	Revaluation of property, plant and equipment	1,286	1,453
	Corporate tax rate change	-	(234)
	Total deferred tax liabilities	**2,493**	**2,573**
	The movement in deferred tax liabilities for each temporary difference during the year is as follows:		
	Revaluation of investment properties		
	Opening balance	1,547	1,607
	Change recognised in profit or loss	-	80
	Closing balance	**1,547**	**1,687**
	Revaluation of financial assets through other comprehensive income		
	Opening balance	47	-
	Change recognised in other comprehensive income	-	51
	Closing balance	**47**	**51**
	Depreciation		
	Opening balance	(353)	(322)
	Change recognised in profit or loss	(34)	(62)
	Closing balance	**(387)**	**(384)**
	Revaluation of property, plant and equipment		
	Opening balance	1,332	1,242
	Change recognised in profit or loss	(46)	(47)
	Change recognised in other comprehensive income	-	258
	Closing balance	**1,286**	**1,453**
	Corporate tax rate change	-	(234)
	Deferred tax liabilities closing balance	**2,493**	**2,573**
	Net deferred tax liabilities closing balance	**1,836**	**2,064**

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

	2019 $'000	2018 $'000
3.1 LOANS AND ADVANCES		
Housing loans	665,345	662,126
Personal loans	14,700	13,623
Commercial loans	581	924
Overdrafts	7,658	8,491
Credit cards	9,489	10,082
Gross loans and advances	**697,773**	**695,246**
Deferred loan funding fees	19	(8)
Provision for impairment	(485)	(127)
Interest on non-accrual loans	(1)	(2)
Net loans and advances	**697,306**	**695,109**
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	627,188	623,885

Recognition and measurement

(a) Loans and advances by credit quality

Refer to Note 5.2 B for details.

(b) Loans and advances with credit impairment

	30 June 2019			1 July 2018		
	Gross carrying amount $'000	**ECL allowance $'000**	**Carrying amount $'000**	**Gross carrying amount $'000**	**ECL allowance $'000**	**Carrying amount $'000**
Housing loans	665,345	259	665,086	662,126	199	661,927
Personal loans	14,700	45	14,655	13,623	34	13,589
Commercial loans	581	-	581	924	-	924
Overdrafts	7,658	54	7,604	8,491	30	8,461
Credit cards	9,489	127	9,362	10,082	76	10,006
	697,773	**485**	**697,288**	**695,246**	**339**	**694,907**

Loans and advances

Loans and advances are held within a business model where the objective is to hold the assets in order to collect contractual cash flows.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance, which are primarily brokerage and origination fees. These costs are amortised over the estimated life of the loan. Subsequently, loans and advances are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

NOTE 3: LOANS AND ADVANCES (cont)

3.2 IMPAIRMENT OF LOANS AND ADVANCES

(a) Provisions for impairment

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument. Explanation of the stages are included in Note 1.3. Comparative amounts for 2018 represent allowance account for credit losses and reflect measurement basis under AASB 139.

	2019			
	Stage 1	Stage 2	Stage 3	
	Collective $'000	Specific $'000	Specific $'000	Total $'000
Balance at 1 July per AASB 139	-	-	127	127
Adjustment on initial application of AASB 9 [1]	188	36	(12)	212
Balance at 1 July per AASB 9	188	36	115	339
Transfer to 12-month ECL	34	(34)	-	-
Transfer to lifetime ECL not credit-impaired	(116)	116	-	-
Transfer to lifetime ECL credit-impaired	(25)	-	25	-
Net remeasurement of loss allowance	40	-	-	40
New financial assets originated or purchased	226	-	-	226
Financial assets that have been derecognised during the period (including write-offs)	(58)	(2)	(14)	(74)
Other movements	-	-	(46)	(46)
Balance at 30 June	**289**	**116**	**80**	**485**

1 The opening balance for the collectively impaired provision for impairment measured under AASB 139 is now presented as 12-months and lifetime expected credit losses following the adoption of AASB 9, with no restatement to prior period comparatives. Refer to Note 1.3 for information on the adoption of AASB 9.

	2018		
	Collective $'000	Specific $'000	Total $'000
Balance at beginning of the year	-	234	234
Bad debts written off	-	(132)	(132)
Impairment expense in the profit or loss	-	25	25
Balance at end of year	**-**	**127**	**127**

The allowance for impairment in these tables includes ECL on loan commitments for certain retail products such as credit cards and overdrafts, because the group cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

(b) Impact of movements in gross carrying amount on provision for impairment

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

- The volume of new mortgage loans originated during the period, aligned with the group's organic growth objective, increased the the gross carrying amount of the mortgage book marginally with a corresponding increase in the loss allowance measured on a 12-month basis.
- An increase in repayment arrears by borrowers during the period along with operational changes to collection processes resulted in an increase of the State 2 and Stage 3 loss allowances.

NOTE 3: LOANS AND ADVANCES (cont)

3.2 IMPAIRMENT OF LOANS AND ADVANCES (cont)

	2019			
	Stage 1	Stage 2	Stage 3	
Impact: Increase/(decrease)	Collective $'000	Specific $'000	Specific $'000	Total $'000
Balance at 1 July 2018	694,612	382	252	695,246
ransfer to 12-month ECL	374	(374)	-	-
Transfer to Lifetime ECL not credit impaired	(1,776)	1,776	-	-
Transfer to Lifetime ECL credit impaired	(50)	-	50	-
New financial assets originated or purchased	119,021	-	-	119,021
Financial assets that have been derecognised during the period (including write-offs)	(116,449)	(8)	(37)	(116,494)
Balance at 30 June	**695,732**	**1,776**	**265**	**697,773**

Key judgements and estimates

The measurement of the expected credit loss allowance for loans and advances is an area that requires the use of models and significant assumptions about future economic conditions and credit behaviour (e.g likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is detailed in note 5.2 B (iii), which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities.

Recognition and measurement

Impairment of loans and advances – Applicable from 1 July 2018

Refer to Note 1.3 for details on the impact of AASB 9 adoption.

The group applies a three-stage approach to measuring ECLs for the following categories of financial assets that are not measured at fair value through profit or loss (FVTPL):

- loans and advances measured at amortised cost; and
- loan commitments issued.

Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis.

Stage	Measurement basis
12-months ECL (Stage 1)	The portion of lifetime ECL associated with the probability of default events occurring within the next 12 months.
Lifetime ECL – not credit impaired (Stage 2)	ECL associated with the probability of default events occurring throughout the life of an instrument.
Lifetime ECL – credit impaired (Stage 3)	Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL.

At each reporting date, the group assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If the credit risk of an exposure has increased significantly since initial recognition, the asset will migrate to Stage 2. If no significant increase in credit risk is observed, the asset will remain in Stage 1. Should an asset become impaired it will be transferred to Stage 3.

The group considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and also forward looking analysis. Refer to Note 5.2 B Credit risk.

The group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- other financial assets measured as amortised cost that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

NOTE 3: LOANS AND ADVANCES (cont)

3.2 IMPAIRMENT OF LOANS AND ADVANCES (cont)

Credit quality of financial assets

The group has defined credit risk portfolios and counterparty probabilities of default across loans and advances. Refer to Note 5.2 B Credit Risk for details of inputs, assumptions and techniques used for estimating impairment.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the group considers both quantitative and qualitative information, including expert credit risk assessment, forward looking information and analysis based on the group's historical experience. Refer to Note 5.2 B Credit Risk.

Calculation of expected credit losses

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date – as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive);
- financial assets that are credit-impaired at the reporting date – as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments – as the present value of the difference between the contractual cash flows that are due to the group if the commitment is drawn down and the cash flows that the group expects to receive.

Credit-impaired financial assets

At each reporting date, the group assesses whether loans and advances are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the group on terms that the group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost – as a deduction from the gross carrying amount of the assets; and
- where a financial instrument includes both a drawn and an undrawn component, and the group cannot identify the ECL on the loan commitment component separately from those on the drawn component – the group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write off

Loans and advances are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the group's procedures for recovery of amounts due.

Impairment of loans and advances – Applicable before 1 July 2018

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.

NOTE 3: LOANS AND ADVANCES (cont)

3.2 IMPAIRMENT OF LOANS AND ADVANCES (cont)

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 5.2B 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.

	2019 $'000	2018 $'000
Impaired financial assets – Comparative information under AASB 139		
Credit-impaired loans and advances meet the group's criteria for Stage 3.		
The following table sets out a reconciliation of changes in the net carrying amount of credit-impaired (2018: impaired) loans and advances to members.		
Credit-impaired (2018: Impaired) loans and advances to members		
Balance at 1 July per AASB 139	277	739
Adjustment on initial application of AASB 9	(25)	-
Balance at 1 July per AASB 9	252	NA
Classified as credit-impaired (2018: impaired) during the year	50	52
Transferred to not credit-impaired (2018: impaired) during the year	(27)	(110)
Repayments	(10)	(44)
Disposals	-	(360)
Provision for impairment	(80)	(127)
Interest on non-accrual loans	(1)	(2)
Credit-impaired (2018: impaired) loans and advances to members at 30 June	**55**	**148**

The contractual amount outstanding on financial assets that were written off during the year ended 30 June 2019 and that are still subject to enforcement activity is $Nil.

		2019 $'000	2018 $'000
NOTE 4: LIQUIDITY			
4.1	**CASH AND CASH EQUIVALENTS**		
(a)	**Cash and cash equivalents**		
	Cash on hand	99	95
	Deposits with Authorised Deposit-taking Institutions ("ADI")	32,173	21,688
		32,272	**21,783**

The effective interest rate on short-term ADI deposits was 1.31% (2018: 1.29%).

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 Statement 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:

	2019 $'000	2018 $'000
Cash and cash equivalents	32,272	21,783
	32,272	**21,783**

(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) deposits and withdrawals from transaction and 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.

NOTE 4: LIQUIDITY (cont)

4.1 CASH AND CASH EQUIVALENTS (cont)

(iii) Reconciliation of cash flow from operations with profit after income tax

	2019 $'000	2018 $'000
Profit after income tax	**2,604**	**3,438**
Non-cash flows in profit after income tax:		
Amortisation	372	451
Depreciation	461	510
Provision for loan impairment	220	25
Loss on sale of property, plant and equipment	(10)	31
Change in assets and liabilities:		
(Increase)/Decrease in other receivables	(148)	804
(Increase)/Decrease in prepayments	107	(101)
Increase/(Decrease) in other payables	1,287	885
Increase/(Decrease) in deferred and income taxes	(692)	317
Increase/(Decrease) in provisions	75	76
Net movement in financial assets at fair value through other comprehensive income	-	(171)
Net movement in financial assets at amortised cost	(5,923)	(4,249)
Net movement in loans and advances	(2,657)	(19,388)
Proceeds/(payments) – borrowings	20,000	7,710
Net movements in deposits	(4,935)	6,810
Net cash provided by/(used in) operating activities	**10,761**	**(2,852)**

	2019 $'000	2018 $'000
NOTE 4: LIQUIDITY (cont)		
4.2 OTHER FINANCIAL ASSETS		
(a) Financial assets at fair value through other comprehensive income		
Shares in unlisted entities – Indue Ltd	2,568	2,568
	2,568	**2,568**
Amount of financial assets at fair value through other comprehensive income expected to be recovered more than 12 months after the reporting date	2,568	2,568
Indue Ltd is an ADI, regulated by APRA and is wholly owned by financial institutions, all of which have their heritage in the mutual banking and credit union sector. Indue Ltd provides financial payment products and settlement services. The shares are not 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's shareholding in Indue Ltd is determined using valuation techniques based on observable inputs, such as the prices that shares have been exchanged at in the past by QBANK, and where known, net tangible assets. The fair value of QBANK's shareholding has been determined as being the price at which QBANK last exchanged shares in the entity. QBANK uses its judgement to select a method and make assumptions that are mainly based on information and market conditions existing at the end of each reporting period.		

Recognition and measurement

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income relates to investments in equity instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Investments in equity instruments classified at fair value through other comprehensive income are initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue i.e. ordinary shares.

The group's management has elected, at initial recognition, to irrevocably designate all equity investments at fair value through other comprehensive income (FVOCI) as allowed under AASB 9. The group's policy is to designate equity investments as FVOCI when those investments are not held for trading or held for purposes other than to generate investment returns. This election is made on an investment by investment basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the group's right to received payments is established.

Impairment – Applicable from 1 July 2018

As described in Note 1.3, the adoption of AASB 9 has resulted to changes in the accounting policies of impairment of financial assets. From 1 July 2018, all equity instruments which include those classified as financial assets through other comprehensive income are not subject to impairment under AASB 9.

Impairment – Applicable before 1 July 2018

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.

	2019 $'000	2018 $'000
(b) Financial assets at amortised cost		
Deposits with ADIs	106,853	100,930
	106,853	**100,930**
Amount of financial assets at amortised cost expected to be recovered more than 12 months after the reporting date	28,700	35,801
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)).		

	2019 $'000	2018 $'000

NOTE 4: LIQUIDITY (cont)

4.2 OTHER FINANCIAL ASSETS (cont)

Recognition and measurement

Financial assets at amortised cost

Financial assets at amortised cost consist of deposits with ADIs which are initially recognised at their fair value plus directly attributable transaction costs. Subsequent to initial recognition, the group measures these financial assets at amortised cost, using the effective interest rate method and net of impairment loss based on the management's assessment of the group's business model for managing the investment and the contractual cash flow characteristics as follows:

- 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 – Applicable from 1 July 2018

As disclosed in Note 1.3, the group adopted AASB 9 impairment requirements which resulted in the implementation of an expected credit losses (ECL) model. The group assesses on a forward looking basis the ECL associated with financial assets at amortised cost. For the accounting policy for provision for impairment, refer to Note 1.3. For information on the group's management of credit risk, refer to Note 5.2 B (iii).

Impairment losses are measured as the difference between the 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. The group measures a 12-month ECL for its deposits with ADIs that are determined to have low credit risk at the reporting date.

The group considers investments to have low credit risk when their credit rating is equivalent to the globally understood definition of 'investment grade'. No impairment loss is recognised on deposits with ADIs at initial application date of AASB 9 and as at reporting date.

Impairment – Applicable before 1 July 2018

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.

4.3 DEPOSITS

	2019 $'000	2018 $'000
Call deposits (including withdrawable shares)	300,852	303,411
Negotiable certificates of deposit	92,329	130,011
Term deposits	333,840	298,535
Accrued interest	3,550	3,341
	730,571	**735,298**
Amount of deposits expected to be settled more than 12 months after the reporting date	55,402	38,375
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	36.15%	34.75%
$ value of deposits	264,082	255,526

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.

NOTE 4: LIQUIDITY (cont)

4.4 BORROWINGS

(a) Borrowings

	2019 $'000	2018 $'000
Unsubordinated floating rate notes due December 2020	10,000	10,000
Unsubordinated floating rate notes due March 2021	10,000	10,000
Unsubordinated floating rate notes due December 2021	10,000	-
Unsubordinated floating rate notes due March 2022	10,000	-
	40,000	**20,000**
Amount of borrowings expected to be settled more than 12 months after the reporting date.	40,000	20,000

Unsubordinated floating rate notes were issued pursuant the $250m Debt Issuance Programme established by QBANK under which medium term notes and other debt securities may, from time to time, be issued up to the Programme Amount. The Information Memorandum relating to the debt issuance program was dated 3 October 2017. Further information on QBANK's exposure to risk is contained in Note 5.2.

(b) Borrowing facilities

The group has a gross borrowing facility as follows:

	Approved Facility $'000	Current Borrowing $'000	Net Available $'000
2019			
Overdraft facility - Indue Ltd	1,000	-	1,000
	1,000	**-**	**1,000**
2018			
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. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings 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.

	2019 $'000	2018 $'000
NOTE 4: LIQUIDITY (cont)		
4.5 DERIVATIVES		
Liabilities		
Interest rate swap contracts - cash flow hedges	-	16
The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:		
Less than 1 year	-	5,000
1 - 2 years	-	-
2 - 3 years	-	-
3 - 4 years	-	-
4 - 5 years	-	-
Total Interest Rate Swaps	**-**	**5,000**

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 or loss when the hedged interest expense is recognised. The ineffective portion is recognised in profit or loss immediately. During the year ended 30 June 2019, there was no transfer to the profit or loss (2018: $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.

	2019 $'000	2018 $'000

NOTE 4: LIQUIDITY (cont)

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:

	2019 $'000	2018 $'000
Carrying amount of transferred assets	**91,071**	**93,929**
Carrying amount of associated liabilities	**93,578**	**96,332**
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred assets	91,071	93,929
Fair value of associated liabilities	93,578	96,332
Net position	**(2,507)**	**(2,403)**

(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 $91,071,104 as at 30 June 2019 (2018: $93,929,047).

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 9, and accordingly the loans are recognised in the Statement of Financial Position. QBANK continues to recognise the transferred assets with loans and advances and the transfer is accounted for as a secured financing transaction.

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.

NOTE 5: RISK AND CAPITAL MANAGEMENT

5.1 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.

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES

Introduction

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of the bank's risk management framework, including setting the risk appetite for the bank and embedding a strong risk culture consistent with the risk appetite.

The risk management framework consists of systems, structures, policies and processes for identifying, measuring, evaluating, monitoring, reporting and managing material risks. The risk management framework is reviewed regularly to account for changes in market conditions and activities.

Material risks are risks that could have a material impact, both financial and non-financial, on the bank or on the interests of depositors and/or members. The bank's material financial risks are:

- interest rate risk;
- credit risk;
- liquidity risk;
- operational risk;
- capital adequacy; and
- risks arising from the bank's strategic objectives and business plans.

Three committees have been formed by the Board to help it perform its role of overseeing risk management. These are the: Risk and Compliance Committee; Audit and Finance Committee; and the Governance and Remuneration Committee. Each committee is responsible for overseeing the management of specific categories of risks.

The Risk and Compliance Committee assists the Board by providing oversight of the implementation and operation of the risk and compliance management framework, and the robustness of the bank's risk culture. This includes, but is not limited to, advising and assisting the Board on the risk management strategy, risk appetite statement, internal capital adequacy assessment process, business continuity plans, business recovery plans and the compliance framework for managing legal and regulatory risk. Regular monitoring of material risks is based on periodic reporting from the Chief Risk and Governance Officer and the Executive Management team. The Committee meets at least four times a year and at such other times as the Committee considers necessary to fulfil its responsibilities.

The Audit and Finance Committee assists the Board by providing oversight of the quality, adequacy and integrity of the bank's financial reporting processes, internal audit, external audit, and risk management framework. The committee also provides oversight of the bank's financial policies, budgets and performance to ensure they support the mission, values and strategic goals of the bank. In performing this role, the committee reviews regular audit and financial information from the Internal Auditor, External Auditor and Chief Financial Officer and provides feedback to the Board for their consideration. The Committee meets at least four times a year and at such other times as the Committee considers necessary to fulfil its responsibilities.

The Governance and Remuneration Committee assists the Board in the development, implementation and maintenance of a robust system of governance that is aligned with best practice, whilst fitting the circumstances of QBANK, and oversight of remuneration policies and practices for Directors and key management personnel. In performing this role, the committee reviews regular information from the Executive Management team and provides feedback to the Board for their consideration. The Committee meets at least four times a year and at such other times as the Committee considers necessary to fulfil its responsibilities.

The Board delegates authority and limits to the Chief Executive Officer (CEO) to manage the business. The CEO may sub-delegate certain authorities and limits, where necessary, for the effective and efficient operation of the business.

Four key management committees, each with its own charter, have been established for monitoring risk across the bank and reporting material risks upwards to enable the Board and Board Committees to meet their responsibilities: the Asset and Liability Committee; the Management Risk and Compliance Committee; the Information Security Steering Group; and the Work Health and Safety Committee.

The Asset and Liability Committee is responsible for overseeing the effective governance of the bank's interest rate, liquidity, funding and capital management risks, including the consideration and endorsement of applicable risk management frameworks, policies, limits, controls and internal capital adequacy assessment. The committee meets at least monthly.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

The Management Risk and Compliance Committee is responsible for overseeing the effective governance of operational risk and compliance matters. The aim of the committee is to oversee management of business level risks and encourage consideration and discussion of risks, with the ultimate objective of strengthening the bank's risk culture. The committee meets at least bi-monthly.

The Information Security Steering Group (ISSG) is responsible for managing the risks associated with the bank's information assets, including identifying and monitoring significant trends and changes to QBANK's information security risks and proposing changes to the controls framework and/or policies to manage information asset security. The ISSG provides a cybersecurity posture report to the Board Risk and Compliance Committee on a quarterly basis. The committee meets at least once every 3 months.

The Work Health and Safety Committee is a consultative body that develops work health and safety standards, rules and procedures for the workplace and facilitates cooperation between the bank and its workers in instigating, developing and carrying out measures designed to provide a safe place to work. The Committee meets at least once every 3 months.

The bank applies the "Three Lines of Defence" model that articulates the key layers of risk management. The design of the model defines roles, accountabilities, and responsibilities for each layer.

The first line of defence involves all managers and employees, who are primarily responsible for identifying, managing and reporting risks, escalating risk issues where appropriate and ensuring compliance with legal and regulatory requirements i.e. effective implementation of the risk management framework.

The second line of defence is the risk and governance team, headed by the Chief Risk and Governance Officer. The risk and governance team is responsible for: adapting and improving the risk management and culture framework; providing advice and training to the first line; providing objective review and challenge to the first line regarding risk management; providing analysis and reporting to the Board; and providing general oversight of the risk management and regulatory compliance framework.

The third line of defence is internal and external audit who provide independent assurance to the Board on the appropriateness of the risk management framework design, consistent implementation, and operational effectiveness of the risk management framework. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Finance Committee and the Risk and Compliance Committee (as appropriate). External audit conducts an annual audit to test the matters set out in APS310 and APS910 including the effectiveness of internal controls designed to ensure compliance with APRA prudential requirements.

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

A. Interest Rate Risk

QBANK is exposed to interest rate risk in its banking book. Interest rate risk is the risk that changes in interest rates will have an adverse impact on the bank's earnings and/or the economic value of its assets and liabilities. Interest rate risk arises due to underlying mismatch in the amount, timing and source of repricing of interest rates across assets, liabilities and derivatives. QBANK does not conduct trading book activities.

QBANK's objective in managing interest rate risk is to maximise and stabilise net interest income and the net present value of the statement of financial position over time, to provide secure and sustainable earnings. The management of interest rate risk is the responsibility of the Asset and Liability Committee and governed in accordance with the Interest Rate Risk Policy. The Derivatives and Hedging Policy allows the use of derivative transactions to hedge interest rate risks. QBANK is not exposed to material levels of currency risk.

QBANK's exposure to interest rate risk is measured and monitored using present value sensitivity (PVS), Value at Risk (VaR), and Earnings at Risk (EaR). Interest rate risk reports are prepared internally and measured and compared to limits bi-monthly.

There has been no significant change to QBANK's exposure to interest rate risk or the way QBANK manages and measures interest rate risk in the reporting period. Historically low interest rates has reduced the ability to reprice deposit products fully for any cash rate decreases. QBANK manages this through various ways including consideration of the extent of repricing on loans and advances.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 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	
2019							
Financial Assets							
Cash and cash equivalents	32,173	-	-	-	99	32,272	1.31%
Other receivables	-	-	-	-	828	828	
Financial assets at amortised cost	46,200	60,653	-	-	-	106,853	2.47%
Financial assets at fair value through other comprehensive income	-	-	-	-	2,568	2,568	
Loans and advances	500,120	53,798	143,388	-	-	697,306	4.29%
Total Financial Assets	**578,493**	**114,451**	**143,388**	**-**	**3,495**	**839,827**	
Financial Liabilities							
Deposits	304,402	370,767	55,402	-	-	730,571	1.99%
Borrowings	40,000	-	-	-	-	40,000	3.36%
Other payables	-	-	-	-	4,207	4,207	
Total Financial Liabilities	**344,402**	**370,767**	**55,402**	**-**	**4,207**	**774,778**	
Off-Balance Sheet							
Interest rate swaps	-	-	-	-	-	-	-
Total Off-Balance Sheet	**-**	**-**	**-**	**-**	**-**	**-**	
2018							
Financial Assets							
Cash and cash equivalents	21,688	-	-	-	95	21,783	1.29%
Other receivables	-	-	-	-	680	680	
Financial assets at amortised cost	45,804	55,126	-	-	-	100,930	2.30%
Financial assets at fair value through other comprehensive income	-	-	-	-	2,568	2,568	
Loans and advances	508,633	70,327	116,149	-	-	695,109	4.35%
Total Financial Assets	**576,125**	**125,453**	**116,149**	**-**	**3,343**	**821,070**	
Financial Liabilities							
Deposits	306,752	390,171	38,375	-	-	735,298	1.97%
Borrowings	20,000	-	-	-	-	20,000	4.00%
Other payables	-	-	-	-	3,155	3,155	
Total Financial Liabilities	**326,752**	**390,171**	**38,375**	**-**	**3,155**	**758,453**	
Off-Balance Sheet							
Interest rate swaps	5,000	(5,000)	-	-	-	-	1.48%
Total Off-Balance Sheet	**5,000**	**(5,000)**	**-**	**-**	**-**	**-**	

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

Based on calculations as at 30 June 2019, the change in present value of interest bearing assets and interest-bearing liabilities for a 2% (2018: 2%) movement in interest rates would be $268,800 (2018: $809,400). In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over interest bearing assets, liabilities and derivatives (excluding deposits in at-call transaction accounts);
- 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 deposit and borrowing liabilities would reprice to the new interest rate at the next interest rate repricing date, or are replaced by similar products with similar terms and rates applicable as the repricing liability;
- Deposit liabilities in at-call transaction accounts would not reprice in the event of a rate change;
- Deposits in at-call savings accounts would reprice to the new rate immediately;
- Fixed rate loans and advances and fixed rate financial assets would reprice to the new interest rate at the next interest rate repricing date;
- Variable rate loans and advances, variable rate financial assets and cash would reprice to the new interest rate immediately;
- Derivatives (interest rate swaps) would reprice to the new interest rate at the next interest rate repricing date; 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 loans, advances and liquid investment assets but can also arise from the financial instruments used to hedge interest rate risk.

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and at FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the amounts committed.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 1.3(i).

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

	2019				2018
	Stage 1 Collective	Stage 2 Specific	Stage 3 Specific	Total	Total
	$'000	$'000	$'000	$'000	$'000
Loans and advances at amortised cost					
Performing					
– Neither past due or impaired	695,732	-	-	695,732	691,018
– Past due but not impaired	-	1,776	-	1,776	3,951
Non-Performing					
– Individually impaired	-	-	265	265	277
Allowance for impairment	(289)	(116)	(80)	(485)	(127)
Carrying amount	**695,443**	**1,660**	**185**	**697,288**	**695,119**
Financial assets at amortised cost					
Performing	106,853	-	-	106,853	100,930
Loss allowance	-	-	-	-	-
Carrying amount	**106,853**	**-**	**-**	**106,853**	**100,930**
Loan commitments					
Performing	4,981	-	-	4,981	8,247
Allowance for impairment	-	-	-	-	-
Amount reported as a provision (liability)	**-**	**-**	**-**	**-**	**-**
Financial assets at FVOCI					
Performing	2,568	-	-	2,568	2,568
Loss allowance	-	-	-	-	-
Carrying amount	**2,568**	**-**	**-**	**2,568**	**2,568**

ii. Collateral held and other credit enhancements

The group holds collateral and other credit enhancements against certain of its credit exposures. Quantification of the collateral arrangements relating to lending is set out below:

	2019	2018
	$'000	$'000
Loans and advances with no collateral	17,650	18,530
Loans and advances with collateral	680,123	676,716
Total loans and advances	**697,773**	**695,246**

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. Collateral is usually not held over loans and advances to, or deposits with, other financial institutions. Collateral is usually not held against investment securities.

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value ratio (LVR). LVR is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination. For credit-impaired loans the value of collateral is based on the most recent appraisals.

	2019 $'000	2018 $'000
NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)		
5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)		
Loan-to-value ratio (LVR)		
Residential mortgage loans		
Less than 60%	213,909	209,123
61-80%	302,333	298,126
81-90%	103,395	94,879
91-100%	50,511	65,409
More than 100%	-	-
Total	**670,148**	**667,537**
Credit-impaired loans		
Less than 60%	223	-
61-80%	-	-
81-90%	515	-
91-100%	378	226
More than 100%	-	-
Total	**1,116**	**226**

iii. Amounts arising from ECL – Inputs, assumptions and techniques used for estimating impairment

See also recognition and measurement in Note 3.2.

(a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk portfolios – The group allocates each exposure to a credit risk portfolio based on the types of facility and security held, for example mortgage secured lending, personal term lending, and unsecured revolving credit. These portfolios are defined based on qualitative and quantitative factors that are indicative of risk of default. All exposures start as performing facilities. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different expected credit loss stage. The monitoring typically involves use of the following data:

- Internally collected data on customer behaviour
- Payment records which includes overdue status
- Requests for and granting of hardship
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD – Credit risk portfolios are a primary input into the determination of the term structure of PD for exposures. The group collects performance and default information about its credit risk exposures analysed by type of product. For some portfolios, information purchased from external credit reference agencies is also used.

The group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. Where possible, this analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to mortgage secured facilities, the analysis may extend to real estate prices.

The group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly – The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

Using its expert credit judgement and, where possible, relevant historical experience, the group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

(b) Definition of default

The group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the group;
- the borrower has breached an advised limit for more than 90 days for overdrafts;
- the group has filed for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the group for regulatory capital purposes.

(c) Incorporation of forward-looking information

The group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of internal and external actual and forecast information, the group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and the RBA, forecasts by larger Australian banks and financial institutions and other selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The group assessed available market data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk for retail portfolios are: unemployment rates, house prices and interest rates. For exposures to specific facilities key drivers also include real estate prices.

The economic scenarios used as at 30 June 2019 included the following ranges of Australian key indicators for the years ending 30 June 2019 and 2018.

	30 June 2019	1 July 2018
Unemployment rates	Base: No change	Base: No change
	Upside: 10% decrease	Upside: 10% decrease
	Downside: 20% increase	Downside: 20% increase
House prices	Base: No change	Base: No change
	Upside: 10% increase	Upside: 10% increase
	Downside: 30% decrease	Downside: 30% decrease

The weightings assigned to each economic scenario as at 30 June 2019 and 1 July 2018 were as follows:

	Base	Upside	Downside
All portfolios	60%	30%	10%

(d) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for rated investment counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

LGD is the magnitude of the likely loss if there is a default. The group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LVRs are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the group measures ECL over a period longer than the maximum contractual period. These facilities do not have a fixed term or repayment structure. The group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- LVR for retail mortgages;
- date of initial recognition; and
- remaining term to maturity.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	Exposure $'000	External bench-marks used PD
Financial assets at amortised cost	$106,853	S&P cumulative default rates (ANZ)

Credit risk – loans and advances

In the event that other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, QBANK's maximum credit risk exposure, without taking into account the value of any collateral or other security, is $702,268,000 (2018: $703,363,000). The represents the carrying amount of those assets, as indicated in the Statement of Financial Position, plus any undrawn loan commitments. Details of undrawn loan commitments are shown in Note 6.1(b).

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

	Maximum Credit Risk Exposure			
	% of Total Loans		$'000	
	2019	2018	2019	2018
Geographical Area				
Brisbane	46.25%	47.19%	322,749	328,072
Queensland - other than Brisbane	48.42%	47.27%	337,873	328,647
Industry				
Qld Government employees	76.42%	75.23%	520,109	508,974

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

The portfolio is heavily concentrated to loans and advances where the bank holds collateral as security in the form of a mortgage interest over real property, other registered securities over assets, personal guarantees and mortgage insurance. To mitigate credit risk, the bank can take possession of the security held against the loans and advances in the event of default. An estimate of the value of collateral held as security is assessed at the time of the borrowing and is generally not updated except when loans and advances are individually assessed as impaired. It has not been practicable to determine the fair value of the collateral held as security against performing loans.

The primary method of managing credit risk is by strict adherence to the bank's credit assessment policies before loans are approved and close monitoring of defaults in the repayment of loans thereafter. The bank's Credit Risk Management Policy has been endorsed by the Board and is designed to ensure that loans are only made to members that are capable of meeting loan repayments over the life of the loan.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

QBANK has established frameworks and policies covering:

- Credit assessment and approval of loans and other facilities meeting acceptable risk assessment and security requirements;
- Defined limits of exposure to individual borrowers, non-mortgage secured loans, commercial lending and concentrations of loans in geographic areas and industry sectors considered a high risk of default;
- Review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Credit risk portfolio reporting and analysis; and
- Periodic review of compliance with key elements of 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 counterparty 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 activities are commenced for loans and credit cards from day 1. It is the practise 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. 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.

(ii) Collateral securing loans

A majority of the loan book is secured by mortgages over 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. 5.2 B (ii) outlines the nature and extent of the security held against the loans as at the end of the reporting period.

It is the practise of QBANK to allow members with a secured loan or advance reasonable assistance and opportunity to rectify a breach prior to the recovery process being initiated. Details of assets acquired from loan recovery, if any, and their disposal are shown in Note 3.2.

(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 exposures, 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)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

Credit risk – financial assets at amortised cost

Credit risk in relation to liquid investments, categorised as financial assets at amortised cost, is the risk that the investment counterparty fails to discharge their obligations resulting in QBANK incurring a financial loss.

The bank has a low appetite for credit risk in the liquid investment portfolio. The risk of credit losses is materially reduced by the liquid nature and high quality of investments in the portfolio and the use of independent credit ratings to inform decision regarding limits to individual counterparties and groups of related counterparties and exposures to credit grades.

QBANK uses the ratings of Standard and Poor's, Moody's Investor Services and Fitch Ratings to help inform its assessment of the credit quality of rated investment counterparties and instruments, where applicable, using the mapping of credit grades in APRA Prudential Standard 112 – Capital Adequacy: Standardised Approach to Credit Risk.

The Asset and Liability Committee oversees the management of credit risk on liquid investments in accordance with the Liquidity Management Policy.

The Liquidity Management Policy limits the aggregate exposure to an individual counterparty and on an aggregate credit rating grade basis. The maximum exposure to any one counterparty or group of related counterparties is set by reference to QBANK's total capital and scaled according to credit grade. i.e. higher credit grades have higher limits and lower credit grade have lower and no limits. The maximum exposure to a Grade 1 Australian Bank is 35%, but generally 25%, of total capital (2018: 50%). Credit grade concentration limits are set by reference to total portfolio size.

QBANK is not permitted to invest in rated, non-investment grade counterparties or securities. Holdings of unrated ADI investments and exposures to unrated ADI counterparties are permitted as some of the counterparties provide transactional banking services fundamental to QBANK's operation. These exposures are limited relative to QBANK's total capital base and total investment portfolio.

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

	2019	2018
	$'000 Carrying value	$'000 Carrying value
ADI's – rated A and above*	29,801	34,896
ADI's – rated A– to BBB*	68,160	57,142
Indue Ltd (unrated)	8,892	8,892
(*Standard and Poor's)	**106,853**	**100,930**

C. Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its financial obligations as they fall due, caused by a mismatch in cash flows.

The Asset and Liability Committee oversees the management of liquidity risk in accordance with the Liquidity Management Policy.

QBANK's liquidity management philosophy is to ensure that it maintains sufficient high-quality liquid assets to enable it to meet its obligations as and when they fall due across a wide range of operating circumstances.

QBANK manages liquidity risk by:

- Continuously monitoring actual and daily cash flows and forecasting short term cash flows;
- Monitoring longer term maturity profiles of financial assets and financial liabilities;
- Maintaining adequate high-quality liquid asset holdings, liquidity support facilities and contingent funding facilities;
- Maintaining diverse and stable funding sources; and
- Maintain contingency plans for dealing with unexpected cashflows.

QBANK is required to maintain at least 9% of total adjusted liabilities as high-quality liquid assets. The high-quality liquid asset must be free from encumbrances, unsubordinated and eligible for repurchase agreement with the RBA. This includes cash and cash equivalents and investment grade investment securities. QBANK's policy is to maintain a high-quality liquid asset management range that comfortably exceeds APRA minimum requirements. The preferred minimum is 14% (2018: 14%). The ratio is monitored and reported daily. Should unexpected events occur, a series of management action plans have been established to support liquidity management activities.

Due to the high quality of the liquid assets maintained by QBANK and the ability to readily sell them to meet liquidity requirements, 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.

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.

Note 4.4 describes the borrowing facilities as at the end of the reporting period.

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

	2019	2018
	%	%
Liquid funds to total adjusted liabilities:		
- As at 30 June	17.37%	15.52%
- Average for the year	16.75%	16.36%
- Minimum for the year	14.88%	14.96%
Liquid funds to total member deposits:		
- As at 30 June	19.04%	16.69%

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 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
2019							
Financial Liabilities							
Deposits	377,662	99,859	201,453	59,221	-	738,195	730,571
Borrowings	-	274	823	41,227	-	42,324	40,000
Other payables	4,207	-	-	-	-	4,207	4,207
Total Financial Liabilities	**381,869**	**100,133**	**202,276**	**100,448**	**-**	**784,726**	**774,778**
Off-Balance Sheet Items							
Undrawn Commitments - Note 6.1(b)	95,330	-	-	-	-	95,330	-
Interest Rate Swaps	-	-	-	-	-	-	-
Total Off-Balance Sheet Instruments	**95,330**	**-**	**-**	**-**	**-**	**95,330**	**-**
2018							
Financial Liabilities							
Deposits	397,140	113,418	184,921	41,320	2,088	738,887	735,298
Borrowings	-	180	539	21,168	-	21,887	20,000
Other payables	3,155	-	-	-	-	3,155	3,155
Total Financial Liabilities	**400,295**	**113,598**	**185,460**	**62,488**	**2,088**	**763,929**	**758,453**
Off-Balance Sheet Items							
Undrawn Commitments - Note 6.1(b)	95,358	-	-	-	-	95,358	-
Interest Rate Swaps	5	10	-	-	-	15	16
Total Off-Balance Sheet Instruments	**95,363**	**10**	**-**	**-**	**-**	**95,373**	**16**

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

D. Operational risk

Operational risk is the risk of loss to QBANK resulting from deficiencies or failures 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 regulatory compliance, business continuity, data infrastructure, outsourced services, fraud, and employee errors or misconduct.

QBANK's objective is to manage operational risk 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 adverse events occurring and minimise the impact.

Operational risk is managed through the bank's risk management framework that includes risk identification, measurement, evaluation, monitoring and reporting processes where the board and senior management identify key risks and management of the key risk is assigned and monitored. Operational risk management is enhanced through:

- The segregation of incompatible duties between employees and functions, including approval and processing duties;
- Documentation of relevant policies and procedures, position descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- Regular quality assurance of key processes and management reporting;
- Measures to support and develop appropriate behaviour, including breach and incident reporting and rectification (all QBANK staff have risk and compliance KPIs);
- Education of members to review their account statements and report exceptions to QBANK promptly;
- Formal dispute resolution procedures to respond to member complaints;
- Insurance arrangements to reduce the impact of unexpected losses; and
- Contingency plans for dealing with loss of functionality of systems or premises or staff.

(i) Fraud

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

(ii) IT systems

Failure of QBANK's core banking or IT network suppliers causing QBANK to be unable to meet member obligations and service requirements could have a material impact on the bank. The bank has outsourced IT systems management to an independent data processing centre which is owned by a collection of mutual ADIs. This organisation has systems in place to manage any short-term issues and has a contingency plan to manage any related power or systems failures. Other network suppliers are also engaged on behalf of QBANK by the industry body Indue Limited to service settlements with other financial institutions for direct entry, Visa and ATM cards, BPAY and chequing. An IT systems disaster recovery plan is in place to cover medium to long-term problems. This plan is considered sufficient to mitigate the risk to an extent such that there is no need for any further capital to be allocated. A broader Business Continuity Plan is also in place to address organisation wide events, including prolonged or severe IT systems outages.

	2019 $'000	2018 $'000

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.3 CAPITAL MANAGEMENT

QBANK's capital management objective is to maintain an appropriate level of capital commensurate with the level and extent of risks to which it is exposed and to ensure compliance with externally prescribed capital requirements. The purpose of holding capital is to absorb unexpected losses which may arise from interest rate risk, credit risk, liquidity risk, operational risk and other risks; and to allow the bank to grow, reinvest and maintain the confidence of depositors and investors.

The Australian Prudential Regulatory Authority (APRA) determines the prudential capital requirements (PCRs) for QBANK. PCRs are expressed as a percentage of risk weighted assets and set by reference to Common Equity Tier 1 Capital (CET1), Tier 1 Capital and Total Capital.

CET1 Capital comprises total equity with adjustments for intangible assets and regulatory reserves. Tier 1 capital comprises CET1 Capital plus Additional Tier 1 Capital, such as hybrid securities with 'equitylike' characteristics. Tier 2 Capital comprises certain securities recognised as Tier 2 Capital, together with specific bank reserves eligible as regulatory capital. Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

CET1 Capital has the greatest capacity to absorb potential losses, followed by Additional Tier 1 Capital and then Tier 2 Capital. QBANK's CET1 Capital includes retained earnings, asset revaluation reserve, general reserves (except reserve for credit losses), and cash flow hedge reserve less prescribed regulatory adjustments. QBANK does not have any Additional Tier 1 Capital. QBANK's Tier 2 capital comprises collective impairment allowances where the standardised approach is used (general reserve for credit losses).

Capital in QBANK is made up as follows:	2019 $'000	2018 $'000
Tier 1 Capital		
Common Equity Tier 1 Capital		
Retained earnings	74,125	71,739
Asset revaluation reserve	4,520	4,520
General reserve	388	379
Cash flow hedge reserve	-	(11)
Less prescribed deductions	(2,953)	(2,964)
Net Common Equity Tier 1 Capital	**76,080**	**73,663**
Additional Tier 1 Capital	-	-
Net Tier 1 Capital	**76,080**	**73,663**
Tier 2 Capital		
Reserve for credit losses	1,914	1,628
Net Tier 2 Capital	**1,914**	**1,628**
Total Capital	**77,994**	**75,291**

The minimum PCRs that an ADI must maintain at all times are: CET 1 Capital ratio of 4.5%; a Tier 1 Capital ratio of 6.0%; and Total Capital ratio of 8.0%. APRA may determine PCRs at or above these minimums. An ADI must also hold capital conservation buffer (CCB) above the PCR for CET1. The CCB is 2.5% of the ADI's total risk-weighted assets, unless otherwise determined by APRA. QBANK has complied with all APRA determined PCRs throughout the period.

The bank has in place an Internal Capital Adequacy Assessment Process "ICAAP" in place that incorporates:

- a capital management policy, an ICAAP summary statement and an ICAAP annual report;
- systems and procedures to identify, assess, measure, monitor and manage the risks arising from its activities on a continuous basis to ensure that capital is held at a level consistent with the bank's risk profile;
- a strategic planning and budgeting process that incorporates three-year forecasting to ensure that an adequate buffer is maintained to minimum prudential capital requirements and commensurate with the level and extent of risks to which it is exposed from its strategies, activities and market conditions;
- contingency plans for dealing with potential adverse events and trends. E.g. reporting to the Board if the Total Capital falls below 15.00%. (2018: 15.00%); and
- a regular review process and, where appropriate, adjustments to reflect changes in capital requirements.

The bank calculates actual capital ratios on a monthly basis and reports to the Board. The actual level of capital is also reported on a quarterly basis to APRA and disclosed on the bank's website.

The level of 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:

2019	2018	2017	2016	2015
20.71%	19.93%	19.22%	18.56%	21.93%

		2019 $'000	2018 $'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	17	42
	Longer than 1 year and not longer than 5 years	-	-
	Longer than 5 years	-	-
		17	**42**
(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	4,981	8,247
	Undrawn overdraft, line of credit and credit cards	31,193	31,548
	Amounts available for redraw	59,156	55,495
		95,330	**95,290**

6.2 CONTINGENT LIABILITIES

(a) Credit Union Financial Support System (CUFSS)

QBANK is a participant in the 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 2019 was $Nil (2018: $Nil).

(b) Guarantees

QBANK has provided guarantees on behalf of members. The maximum liability of the guarantees is limited to $68,121 (2018: $68,121). As at 30 June 2019, QPCU Limited is unaware of any claim in relation to these guarantees.

(c) Claims

During the year ended 30 June 2018, a claim was served against the company by certain trustees and executors in relation to a will of a deceased person and the opening and operation of bank accounts with QBANK during the period from 2008 to 2011. The executors have separately commenced proceedings against several beneficiaries under the will. QBANK is defending the claim. Due to limited progress of legal proceedings and the inherent uncertainties, no reliable estimate of any amount, or timing of such amount, which may arise from the legal proceedings can be made. No provision has been made in these financial statements.

6.3 EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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

NOTE 7: OTHER INFORMATION

7.1 PROPERTY, PLANT AND EQUIPMENT

	2019 $'000	2018 $'000
(a) Carrying Values		
Owner Occupied Property		
At fair value	6,686	6,686
Accumulated depreciation	(167)	-
	6,519	**6,686**
Plant and Equipment		
At cost	3,787	3,788
Accumulated depreciation	(3,046)	(2,803)
	741	**985**
Total Property, Plant and Equipment	**7,260**	**7,671**

	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 2017	**5,983**	**1,088**	**7,071**
Additions	-	251	251
Disposals	-	(1)	(1)
Depreciation expense	(157)	(353)	(510)
Net revaluation movement	861	-	861
Balance at 30 June 2018	**6,686**	**985**	**7,671**
Additions	-	54	54
Disposals	-	(4)	(4)
Depreciation expense	(167)	(294)	(461)
Net revaluation movement	-	-	-
Balance at 30 June 2019	**6,519**	**741**	**7,260**

(c) Revaluation of owner occupied property

The fair value of owner occupied property was based on the assessment of their current market value. The current market value is assessed having regard to the value determined by the direct comparison method, and the value determined by the capitalisation of net income 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 capitalisation of net income approach is the primary approach that has been adopted for owner occupied property.

The independent revaluations on 30 June 2018 were carried out by Herron Todd White (Brisbane) Pty Ltd. The fair value increment charged to other comprehensive income for the financial year ended 30 June 2019 was $Nil (2018: $860k).

		2019 $'000	2018 $'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	(1,286)	(1,233)
	Net book value	**827**	**880**

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 2019	Range of Inputs 2018	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 $454 (weighted average $450) $125 to $228 (weighted average $131) 8.50% to 9.00% (weighted average 8.53%)	$450 to $454 (weighted average $450) $125 to $228 (weighted average $131) 8.50% to 9.00% (weighted average 8.53%)	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.

Owner occupied 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)

7.2 INVESTMENT PROPERTY

	2019 $'000	2018 $'000
Movements		
Balance at beginning of year	9,624	9,356
Fair value adjustments	-	268
Disposals	-	-
Closing balance	**9,624**	**9,624**
Operating Leases Receivable		
Future minimum lease payments expected to be received in relation to non-cancellable operating leases:		
0-1 year	560	484
1-5 years	158	302
>5 years	-	-
	718	**786**

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 $692k (2018: $895k) and incurred direct operating expenses of $437k (2018: $443k) in connection with these investment properties, recognised in profit or loss.

Revaluation

The fair value of investment property was based on the assessment of their current market value. The current market value is assessed having regard to the value determined by the direct comparison method, and the value determined by the capitalisation of net income 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. The capitalisation of net income approach has been adopted for those lots leased for a term greater than six months. For smaller lots, the direct comparison approach has been used. For vacant lots, either capitalisation of net income or the direct comparison approach has been used.

The independent revaluations on 30 June 2018 were carried out by Herron Todd White (Brisbane) Pty Ltd. The fair value increment on investment properties included in the profit or loss for the financial year ended 30 June 2019 was $Nil (2018: $268k).

Fair value hierarchy

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 2019	Range of Inputs 2018	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	$395 to $476 (weighted average $428) $123 to $228 (weighted average $168) 7.00% to 9.00% (weighted average 8.02%)	$395 to $476 (weighted average $428) $123 to $228 (weighted average $168) 7.00% to 9.00% (weighted average 8.02%)	The higher the outgoings and capitalisation rate, the lower the fair value. The higher the gross rent, the higher the fair value.
	Direct comparison approach based on estimated sale value of the property. Adopted sale rates are estimated by an external valuer based on comparable transactions and industry data.	Sale Rate ($/sqm)	$2,900 to $5,400 (weighted average $2,913)	$2,900 to $5,400 (weighted average $2,913)	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.

		2019 $'000	2018 $'000
7.3	**INTANGIBLE ASSETS**		
(a)	**Carrying amounts**		
	Computer software at cost	2,264	1,911
	Accumulated amortisation	(1,879)	(1,514)
	Closing balance	**385**	**397**
(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	397	689
	Additions	360	190
	Disposals	-	(31)
	Amortisation expense	(372)	(451)
	Closing balance	**385**	**397**

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.

NOTE 7: OTHER INFORMATION (cont)

7.4 OTHER LIABILITIES

		2019 $'000	2018 $'000
(a)	**Other payables**		
	Annual leave	336	321
	Clearing accounts	2,580	1,719
	Sundry creditors	1,128	936
	Deferred income	163	179
		4,207	**3,155**
(b)	**Provisions**		
	Provision for long service leave	467	392
	Provision for Directors retirement benefits	150	150
		617	**542**

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 to Directors for service on the Board in accordance with the Director's access, indemnity, insurance and retirement benefit deeds. Retirement benefits are both vested and not vested at the end of the reporting date, during August 2019 a payment of retirement benefits was made equivalent to the provision.

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. 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.

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

7.5 RELATED PARTIES

(a) **Key Management Personnel**

		2019 $	2018 $
(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	1,809,950	1,598,293
	- Post-employment benefits including superannuation contributions	182,359	186,000
	- Other long term benefits including long service leave provision and annual leave	149,115	93,178
	- Termination benefits	-	49,314
		2,141,424	**1,926,785**

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.

		2019 $	2018 $
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	399,693	434,010
	Aggregate value of other credit facilities at year end	104,500	89,000
	Amounts drawn down included in the aggregate value	19,653	14,183
	Net balance available	84,847	74,817
	During the year the aggregate value of revolving credit facility limits granted or increased/(decreased)	15,500	2,000
	Interest and other revenue earned on loans and revolving credit facilities	19,166	26,701
(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	1,055,806	1,018,931
	Total interest paid on these deposits during the year	20,238	15,227
	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%) (2018: 33 of 76, 43.42%) strata titled lots of Northpoint Body Corporate, and have 7,207 (2018: 7,207) voting entitlements out of 13,227 voting entitlements (54.5%) (2018: 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	580,973	923,797
	Interest and other revenue earned on loans	52,973	75,690
	Other transactions with related parties		
	Deposits are held under the same conditions as normal depositors.		
	Total value term and savings deposits at year end	2,166	2,139
	Total interest paid on these deposits during the year	27	27

NOTE 7: OTHER INFORMATION (cont)

7.6 REMUNERATION OF AUDITORS

	2019 $	2018 $
Remuneration of the auditor for:		
- Auditing and reviewing financials statements	119,000	110,725
- Auditing and review of prudential returns	32,800	31,930
- Taxation services	22,357	24,117
- Other business consulting services	4,360	-
	178,517	**166,772**

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) Financial assets at fair value through other comprehensive income

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 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 the end of the reporting period.

(d) Borrowings

The carrying value of long term borrowings approximate their fair value as they have floating 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
2019				
Financial assets at fair value through other comprehensive income	-	-	2,568	2,568
Derivative liabilities held for risk management	-	-	-	-
2018				
Financial assets at fair value through other comprehensive income	-	-	2,568	2,568
Derivative liabilities held for risk management	-	(16)	-	(16)

(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
2019					
Financial assets					
Loans and advances	-	706,882	-	706,882	697,306
Financial liabilities					
Deposits	-	734,276	-	734,276	730,571
2018					
Financial assets					
Loans and advances	-	700,475	-	700,475	695,109
Financial liabilities					
Deposits	-	736,573	-	736,573	735,298

(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 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% (2018: 100%) owned subsidiary of QBANK incorporated and domiciled in Australia. The bank transfers loans and advances to the QPCU Heroes Trust No 1. QBANK retains 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 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 – Applicable from 1 July 2018

Introduction

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instruments. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the profit or loss.

(ii) Classification and subsequent recognition and measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets 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 on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The group makes the assessment that all financial assets are within the one business model whose objective is to hold assets to collect contractual cash flows.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the group considers:

NOTE 7: OTHER INFORMATION (cont)

7.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the group changes its business model for managing financial assets. There we no changes to any of the group business models during the current year (2018: Nil).

Financial liabilities

The group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

(iii) De-recognition

Financial assets

The group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the group is recognised as a separate asset or liability.

In transactions in which the group neither retains nor transfers substantially all of 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, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The group periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities. All securitisation transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the group's securitisations do not qualify for derecognition based on the above criteria, the group does not derecognise the transferred financial assets but records a secured borrowing with respect to any consideration received. For details of the group's policy on securitisation refer to Note 4.6.

Financial liabilities

The group de-recognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

(iv) Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

(v) Offsetting

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 asset and settle the 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.

(vi) Fair value measurement

Refer to Note 7.8(c) for details.

(vii) Impairment

See accounting policy in Note 3.2 and 5.2 B (iii)

NOTE 7: OTHER INFORMATION (cont)

7.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Financial Assets and Financial Liabilities – Applicable before 1 July 2018

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 3.2 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

(c) Fair Value Measurement

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.

NOTE 7: OTHER INFORMATION (cont)

7.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(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 2018. Except for the impact of adoption of AASB 9 and AASB15 as disclosed in Note 1.3, there are no new and amended accounting standards and interpretations that became effective as of 1 July 2018 that have material impact to the group.

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 2019 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.

Title of standard	**AASB 16 *Leases* (effective from 1 January 2019)**
Nature of change	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 Statement of Financial Position 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 front-end 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.
Impact	The group has completed an initial assessment of the potential impact on its consolidated financial statements. As at the reporting date, QBANK only has low value assets lease arrangements therefore based on the initial assessment undertaken, AASB 16 will not have a material impact to QBANK. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the QBANK's lease portfolio, QBANK's assessment of whether it will exercise any lease renewal options and the extent to which QBANK chooses to use practical expedients and recognition exemptions. *Transition* QBANK plans to apply AASB 16 initially on 1 July 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. QBANK plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts entered into before 1 July 2019 and identified as leases in accordance with AASB 117 and IFRIC 4.
Mandatory application date/ Date of adoption	Mandatory for financial years commencing on or after 1 January 2019.

Directors' Declaration

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 2019 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
Chair

Ray Brownhill
Vice Chair

Dated 24th October 2019

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INDEPENDENT AUDITOR'S REPORT

To the members of QPCU Limited T/A QBANK

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of QPCU Limited T/A QBANK (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 30 June 2019, 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 T/A QBANK, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2019 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 Group 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 Directors' 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

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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 ability of the Group 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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

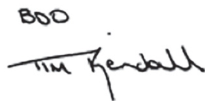
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that 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/ar3.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd



T J Kendall

Director

Brisbane, 24th October 2019

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