QPCU LIMITED T/A QBANK

Annual Report

2019-20

YOUR PARTNER IN BANKING

QBANK

Police • Fire • Health • Public Service • Justice

Contents

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

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 2020.

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

RAY BROWNHILL (DEPUTY 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:

- Deputy Chair of the Board since December 2015
- 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 until November 2019
- Member of the Governance and Remuneration Committee from November 2019
- Member of the Audit and Finance Committee until April 2020

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 a Director of Mooloolaba Marina Limited and was formerly the Chair of Crime Stoppers (QLD).

Special responsibilities:

- Member of the Governance and Remuneration Committee until November 2019
- Member of the Risk and Compliance Committee from November 2019
- Member of the Audit and Finance Committee from April 2020

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

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

Non-Executive Director since 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 executive director ANZ Institutional Bank Qld. 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

JILLIAN STEINKAMP, APM

LLB, Grad Cert App Mgt, GAICD

Retired as Director 24 July 2019 (Non-Executive Director since 2009).

Ms Steinkamp is a retired Inspector of the Queensland Police Service; former Executive Officer and former Secretary/ Treasurer of the Queensland Police Commissioned Officers' Union of Employees; former Branch Official of the Queensland Police Union of Employees; and former Chair of the Board of QBANK from November 2012 to November 2016.

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, FCG
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 2019 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	5	5	3	3	-	-
R F Brownhill	12	12	-	-	-	-	4	4
J Steinkamp	-	-	-	-	1	1	-	-
I Leavers	12	11	-	-	-	-	4	4
P A Wilson	12	12	3	3	2	2	2	2
A Henderson	12	11	2	2	2	2	2	2
D Keating	12	12	-	-	4	4	-	-
N Ide	12	12	5	5	-	-	-	-

E = Eligible to Attend   A= Attended

Directors' Report

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

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, loans and transactional services. Through its partnerships, QBANK offers insurance 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 $1.86m (2019: $2.60m).

Dividends

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

Review of Operations

In a year troubled with the concurrent emergence of COVID-19 and assorted disruptors, QBANK is prouder than ever to serve our Police and first responder community. You, our Members, provide the safety and security that must not be taken for granted. We are privileged to provide, in our small way, whatever help we can to make your lives more financially secure. We are similarly proud of our staff. Under the thoughtful leadership of CEO, Mike Currie, QBANK has kept its people safe while caretaking Member hardship cases, and continuing to improve Member interactions more generally. Member survey scores rank QBANK amongst the top Banks in Australia.

QBANK has continued to enhance Member value beyond high-quality Banking services. In the past year, we introduced digital wallets; commenced a bespoke Property Assistance Service; and, were selected as a panel lender under the Australian Government's First Home Loan Deposit Scheme.

QBANK has continued to strengthen our partnerships with a range of organisations and charities which support our values, our community and those who serve Queensland. Through the various stages of the pandemic, QBANK has continued to focus on servicing our busy front-line Members. As the pandemic unfolded, we extended call centre hours, stepped up financial counselling and accommodations for Members facing financial hardship, and pivoted to online delivery of our very popular Financial Education seminars.

In addition to the impact of COVID-19, this year's operating environment saw regulatory activity continue at unprecedented rates; weaker domestic economic conditions; a softening housing market; and, intense competition for high quality loan applicants. In an effort to cushion a deteriorating economy, the Reserve Bank progressively reduced the official cash rate by 1.00% to a historically low 0.25%. While the objective of low official cash rates is to support economic activity, the domestic economy has entered uncharted territory. We expect the low interest rate regime to continue to present challenges to the profitability of all Banks, including QBANK, for the foreseeable future.

In the context of these unprecedented economic and industry headwinds, QBANK's after-tax profit of $1.9m represents a strong performance. Although down 28.5% year-on-year, we expect that our determination around expense control and credit quality will see QBANK perform well against industry averages this financial year. QBANK's total operating expenses, excluding impairment losses, decreased by 0.4%.

While profitability has been under unusual pressures, QBANK has continued to advance and strengthen other key metrics. In particular, assets (including loans and advances) grew $28.2m, or 3.3%, driven by an increase in liquid investments to strengthen the Bank against any potential liquidity shocks. QBANK's overall funding position continued to strengthen. Member deposits grew $37.7m (5.9%) and short-term wholesale funding was reduced by $44.4m (48.1%). Long-term funding was increased by $35.0m, including participation in the Reserve Bank's Term Funding Facility scheme.

Fierce competition for high quality mortgages and depositors, along with a declining interest rate environment, drove compression of net interest margin, a key industry metric, from 2.06% to 1.95%. In similar fashion, other income decreased by $0.4m (10.6%) due to decreases in fee and commission income and dividends received.

During the financial year, QBANK increased provisions for loan impairment by $0.2m to $0.7m or 0.09% of gross loans and advances. Credit loss provisioning is based on modelled future losses, including forecasts of economic conditions, as well as any actual credit deterioration. Impairment losses continue to represent a small portion of gross loans and advances and are low relative to market averages, evidencing the very high quality of QBANK's loan portfolio.

As a Member-owned Bank, retained earnings are QBANK's primary source of capital. It is essential for QBANK to generate enough profit to support growth, strategic investment and to maintain a prudent buffer of capital for unexpected events. During the year, QBANK's capital adequacy ratio increased from 20.71% to 20.77%, well above minimum prudential requirements.

Together we have navigated through a tough year. Thank you for allowing us to stand with you. We are proud to be "Your Partner in Banking".

QBANK Community

Despite the unique challenges faced this year, QBANK's ongoing commitment to our members, employees and the wider community has remained the driving force behind our activities. Serving others and giving back is the DNA of QBANK.

Inclusion and social outcomes – QBANK is proud to partner with a range of associations of importance to our stakeholders, such as Qld Police Union of Employees (QPUE), United Fire Fighters Union Qld, the KJM Foundation, the Local Ambulance Committee, QLD Police Legacy and Community Supporting Police. The Directors and Staff of QBANK actively engage with our community, attending significant occasions such as recruit graduation ceremonies, participating in Bike for Burns and annual International Women's Day events. By providing special leave, QBANK enables Staff to volunteer for causes aligned with our purpose such as the QPS Commissioner's Christmas Gift Drive and Remembrance Day activities across QPS, QAS and QFES.

Financial resilience and wellbeing – QBANK continues to provide products and services to increase our Members' financial confidence and wellbeing. During this year, QBANK was included on the First Home Loan Deposit Scheme panel of lenders. We continued delivery of Financial Education seminars across our community. We provided personal budgeting tools and support. Importantly, during the height of COVID-19, we established an extended hours hotline to support all Members, whether experiencing financial distress or pressured by longer work hours.

Accountability, governance, and integrity – QBANK operates within the Customer Owned Banking Code of Practice, our own Code of Conduct, and in accordance with APRA prudential standards. We maintain strong capital levels and an appropriate level of liquid assets to meet prudential requirements and maintain the strength and stability of the Bank. We believe reliability, transparency and consistency is the essence of being a responsible company. More information about our approach to Governance can be found at www.qbank.com.au/aboutus/governance.

Giving back to the community – Over the past twelve months QBANK has contributed over $280,000 to a variety of organisations within our community via sponsorships and quarterly Everyday Plus Account donations. Along with financial assistance, we also actively promote and support worthy causes and organisations such as the Police Bravery Awards; QLD Retired Police Association; Rural Fire Brigade Association of QLD; and, our own Everyday Heroes Awards. Our Staff hold monthly fundraising events for charities with significant social impact. QBANK actively pursues high levels of Staff empathy with our unique Member groups by hosting presentations by key stakeholders on the uniqueness of their roles and their impact on the community.

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. We will continue to pursue the principal activities of providing a full range of retail financial products and services to our Members.

Uncertainty exists regarding the duration and severity of COVID-19 impacts and the associated disruption to the domestic and global economy. While there has been significant government support and stimulus, we expect challenging economic conditions ahead. There is the possibility of increased credit losses from higher defaults due to unemployment and softer economic conditions. Our strong credit quality and predominately government Membership base provides significant comfort. With environmental volatility forecast to continue, however, sustained vigilance and close monitoring will be required.

QBANK's strategy remains centred on sustainable growth through strong relationships with our Members; leveraging investments in technology and capability; streamlining the business through improved efficiencies; growing the business to achieve scale whilst maintaining strong levels of capital; 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, close management of which is critical to overall results. QBANK's risks include credit risk, liquidity risk, funding risk, interest rate risk, operational risk and property risk. Further information on these risks and attendant management approach is disclosed in the notes to the financial statements. Other occurrences and developments that may influence the future prospects of QBANK include increased 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, further unexpected disruptions, both economic and social.

Directors' Report

Further information about strategies, developments and expected results for future financial years has not been included in this report. In the opinion of the Board, incremental disclosure would be prejudicial to the long-term interests of QBANK Members.

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 QBANK's website. **(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.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2020 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
Deputy Chair

Signed and dated this 22nd day of October 2020.

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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 2020, 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.

Tim Kendall

T J Kendall

Director

BDO Audit Pty Ltd

Brisbane, 22nd October 2020

QPCU LIMITED T/A QBANK

Financial Report

30 JUNE 2020

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

YOUR PARTNER IN BANKING

QBANK

Police • Fire • Health • Public Service • Justice

Financial Statements

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (For the year ended 30 June 2020)

	Note	2020 $'000	2019 $'000
Interest income	2.1	28,470	32,904
Interest expense	2.2	(11,824)	(15,620)
Net interest income		**16,646**	**17,284**
Other income	2.3	3,630	4,061
Impairment loss on loans and advances	3.2(a)	(238)	(220)
Employee benefits expense		(7,330)	(7,107)
Occupancy expense		(1,112)	(1,101)
Depreciation and amortisation expense	2.4	(682)	(833)
Other expenses		(8,357)	(8,505)
Profit before income tax		**2,557**	**3,579**
Income tax expense	**2.5**	**(694)**	**(975)**
Profit for the year		**1,863**	**2,604**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net changes in the fair value of cash flow hedges		-	13
Income tax relating to this item	2.5(c)	-	(4)
Other comprehensive income for the year, net of income tax		**-**	**9**
Total comprehensive income for the year		**1,863**	**2,613**

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

STATEMENT OF FINANCIAL POSITION (as at 30 June 2020)

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	4.1(a)	38,637	32,272
Other receivables		1,154	828
Income tax receivable		586	79
Financial assets at amortised cost	4.2(b)	129,992	106,853
Financial assets at fair value through other comprehensive income	4.2(a)	2,568	2,568
Loans and advances	3.1	695,320	697,306
Property, plant and equipment	7.1	7,014	7,260
Investment properties	7.2	9,624	9,624
Intangible assets	7.3	207	385
Other assets		939	712
Total assets		**886,041**	**857,887**
Liabilities			
Deposits	4.3	722,883	730,571
Other payables	7.4(a)	3,177	4,207
Borrowings	4.4(a)	74,999	40,000
Deferred tax liabilities	2.5	1,836	1,836
Provisions	7.4(b)	627	617
Total liabilities		**803,522**	**777,231**
Net assets		**82,519**	**80,656**
Equity			
Redeemed preference share capital account		397	388
Reserves		6,173	6,143
Retained earnings		75,949	74,125
Total equity		**82,519**	**80,656**

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

STATEMENT OF CHANGES IN EQUITY (For the year ended 30 June 2020)

	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 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**
Comprehensive income for the year							
Profit for the year		-	-	-	-	1,863	1,863
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**1,863**	**1,863**
Transfers							
- Reserve for credit losses		-	-	30	-	(30)	-
- Redeemed preference share capital		9	-	-	-	(9)	-
Total transfers		**9**	**-**	**30**	**-**	**(39)**	**-**
Total transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2020		**397**	**4,519**	**1,654**	**-**	**75,949**	**82,519**

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

STATEMENT OF CASH FLOWS (For the year ended 30 June 2020)

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Interest received		28,470	32,904
Dividends received		-	143
Fees and commissions received		2,946	3,312
Interest paid		(12,814)	(15,412)
Payments to suppliers and employees		(18,337)	(15,904)
Income taxes paid		(1,202)	(1,667)
Other income		830	900
Net movement in financial assets at amortised cost		(23,139)	(5,923)
Net movement in loans and advances		1,751	(2,657)
Proceeds from borrowings		34,999	20,000
Net movement in deposits		(6,699)	(4,935)
Net cash provided by operating activities	**4.1(b)(iii)**	**6,805**	**10,761**
Cash flows from investing activities			
Net movement in other assets		(192)	129
Payments for property, plant and equipment		(220)	(54)
Proceeds from sale of property, plant and equipment, and intangibles		21	14
Payments for intangibles		(49)	(361)
Net cash used in investing activities		**(440)**	**(272)**
Net cash used in financing activities		**-**	**-**
Total net increase in cash and cash equivalents		**6,365**	**10,489**
Cash and cash equivalents at the beginning of the financial year		**32,272**	**21,783**
Cash and cash equivalents at the end of the financial year	**4.1(b)(i)**	**38,637**	**32,272**

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 2020 were authorised for issue in accordance with a resolution of directors on 22 October 2020. 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, 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 and financial assets at fair value through other comprehensive income 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 16 Leases 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

AASB 16 Leases

AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. This mean that for most leases, a right-of-use asset and a lease liability will be recognised, with the right-of-use asset being depreciated and the lease liability being unwound in principal and interest components over the life of the lease. AASB 16 replaces the accounting requirements applicable to leases in AASB 117 Leases and related interpretations.

The group initially applied AASB 16 on 1 July 2019. There has been no impact on the Financial Statements by the adoption of AASB 16. The group does not currently have any reportable lease arrangements.

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 4.5.

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 expected credit loss (ECL) - refer to Note 3.2
- 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.

		2020 $'000	2019 $'000
NOTE 2: FINANCIAL PERFORMANCE			
2.1	**INTEREST INCOME**		
(i)	***Financial assets at amortised cost***		
	Cash and cash equivalents	241	399
	Financial assets at amortised cost	1,495	2,566
	Loans and advances	26,578	29,741
	Deferred loan fee income	156	175
		28,470	**32,881**
(ii)	***Financial assets at fair value***		
	Interest rate swaps	-	23
		-	**23**
	Total interest income	**28,470**	**32,904**
2.2	**INTEREST EXPENSE**		
(i)	***Financial liabilities at amortised cost***		
	Deposits from wholesale depositors	1,176	3,478
	Deposits from retail members	9,570	11,157
	Other borrowings	1,078	947
		11,824	**15,582**
(ii)	***Financial liabilities at fair value***		
	Interest rate swaps	-	38
		-	**38**
	Total interest expense	**11,824**	**15,620**

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. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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 assessed as 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 other comprehensive income (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.

	2020 $'000	2019 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)		
2.3 OTHER INCOME		
Dividends received	-	143
Fees and commissions	2,801	3,018
Bad debts recovered	25	15
Rental income from investment properties (refer Note 7.2)	642	692
Other	162	193
Total other income	**3,630**	**4,061**

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. 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 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).

	2020 $'000	2019 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)		
2.4 EXPENSES		
Depreciation and amortisation expense		
Amortisation of intangible assets (refer Note 7.3)	228	372
Depreciation of property, plant and equipment		
- owner occupied property (refer Note 7.1)	167	167
- plant and equipment (refer Note 7.1)	287	294
	682	**833**
Other expenses		
General and administration	1,120	1,117
Marketing & promotion	1,038	1,138
Member service costs	2,515	2,664
Net loss on disposal of non-current assets:		
- property, plant and equipment	(8)	(10)
Employee benefits expense		
Superannuation expenses	547	523

		2020 $'000	2019 $'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% (2019: 27.5%):	703	984
	Add Tax effect of:		
	Non-deductible entertainment	5	9
	Underprovision for income tax in prior year	-	16
	Other assessable income	16	16
		724	**1,025**
	Less Tax effect of:		
	Tax offset for fully franked dividends	-	(39)
	Tax building depreciation/ building allowance	(11)	(11)
	Other non-assessable income	(14)	-
	Overprovision for income tax in prior year	(5)	-
		(30)	**(50)**
	Income tax expense	**694**	**975**
(b)	**Major components of tax expense:**		
	Current tax	699	1,191
	Deferred tax	-	(232)
	Underprovision/(Overprovision) for income tax in prior year	(5)	16
		694	**975**
(c)	**Income tax relating to items of other comprehensive income**		
	Deferred tax		
	Net changes in cash flow hedge	-	(4)
		-	**(4)**
(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% (2019: 27.5%)	**27,400**	**26,706**
(e)	**Deferred Tax Assets**		
	Deferred tax assets comprise temporary differences attributable to:		
	Employee benefits	289	262
	Accrued expenses	228	297
	Prepayments	(21)	(35)
	Provision for impairment	180	133
	Total deferred tax assets	**676**	**657**
	The movement in deferred tax assets for each temporary difference during the year is as follows: **Employee benefits**		
	Opening balance	262	237
	Change recognised in profit or loss	27	25
	Closing balance	**289**	**262**
	Accrued expenses		
	Opening balance	297	264
	Change recognised in profit or loss	(69)	33
	Closing balance	**228**	**297**

		2020 $'000	2019 $'000
NOTE 2: FINANCIAL PERFORMANCE (cont)			
2.5	**TAXATION (cont)**		
	Derivatives/hedge reserve		
	Opening balance	-	4
	Charge recognised in other comprehensive income	-	(4)
	Closing balance	**-**	-
	Prepayments		
	Opening balance	(35)	(31)
	Change recognised in profit or loss	14	(4)
	Closing balance	**(21)**	**(35)**
	Provision for impairment		
	Opening balance	133	35
	Change recognised in profit or loss	47	98
	Closing balance	**180**	**133**
	Corporate tax rate change	-	-
	Deferred tax assets closing balance	**676**	**657**
(f)	**Deferred Tax Liabilities**		
	Deferred tax liabilities comprise temporary differences attributable to:		
	Revaluation of investment properties	1,547	1,547
	Revaluation of financial assets through other comprehensive income	47	47
	Depreciation	(322)	(387)
	Revaluation of property, plant and equipment	1,240	1,286
	Total deferred tax liabilities	**2,512**	**2,493**
	The movement in deferred tax liabilities for each temporary difference during the year is as follows:		
	Revaluation of investment properties		
	Opening balance	1,547	1,547
	Change recognised in profit or loss	-	-
	Closing balance	**1,547**	**1,547**
	Revaluation of financial assets through other comprehensive income		
	Opening balance	47	47
	Change recognised in other comprehensive income	-	-
	Closing balance	**47**	**47**
	Depreciation		
	Opening balance	(387)	(353)
	Change recognised in profit or loss	65	(34)
	Closing balance	**(322)**	**(387)**
	Revaluation of property, plant and equipment		
	Opening balance	1,286	1,332
	Change recognised in profit or loss	(46)	(46)
	Change recognised in other comprehensive income	-	-
	Closing balance	**1,240**	**1,286**
	Deferred tax liabilities closing balance	**2,512**	**2,493**
	Net deferred tax liabilities closing balance	**1,836**	**1,836**

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.

	2020 $'000	2019 $'000
NOTE 3: LOANS AND ADVANCES		
3.1 LOANS AND ADVANCES		
Housing loans	666,612	665,345
Personal loans	14,964	14,700
Commercial loans	211	581
Overdrafts	6,016	7,658
Credit cards	8,159	9,489
Gross loans and advances	**695,962**	**697,773**
Deferred loan funding fees	15	19
Allowance for expected credit loss	(656)	(485)
Interest on non-accrual loans	(1)	(1)
Net loans and advances	**695,320**	**697,306**
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	630,441	627,188

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 2020			30 June 2019		
	Gross carrying amount $'000	ECL allowance $'000	Carrying amount $'000	Gross carrying amount $'000	ECL allowance $'000	Carrying amount $'000
Housing loans	666,612	416	666,196	665,345	259	665,086
Personal loans	14,964	40	14,924	14,700	45	14,655
Commercial loans	211	-	211	581	-	581
Overdrafts	6,016	52	5,964	7,658	54	7,604
Credit cards	8,159	148	8,011	9,489	127	9,362
	695,962	**656**	**695,306**	**697,773**	**485**	**697,288**

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 that are 'solely payments of principal and interest' on the principal amount outstanding.

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 expected credit loss for loans and advances.

	2020			
	Stage 1	**Stage 2**	**Stage 3**	
	Collective $'000	**Specific $'000**	**Specific $'000**	**Total $'000**
Balance at 1 July	289	116	80	485
Transfer to 12-month ECL	87	(87)	-	-
Transfer to lifetime ECL not credit-impaired	(96)	96	-	-
Transfer to lifetime ECL credit-impaired	(105)	-	105	-
Expense	217	-	21	238
Financial assets that have been derecognised during the period (including write-offs)	(13)	(29)	(25)	(67)
Balance at 30 June	**379**	**96**	**181**	**656**

	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.

The allowance for expected credit loss 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 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 resulted in an increase of the State 2 and Stage 3 loss allowances.
- Provisioning for loans granted COVID-19 related hardship concessions increased Stage 2 loss allowances.

NOTE 3: LOANS AND ADVANCES (cont)

3.2 IMPAIRMENT OF LOANS AND ADVANCES (cont)

	2020			
	Stage 1	**Stage 2**	**Stage 3**	
Impact: Increase/(decrease)	**Collective $'000**	**Specific $'000**	**Specific $'000**	**Total $'000**
Balance at 1 July 2019	695,732	1,776	265	697,773
Transfer to 12-month ECL	1,621	(1,621)	-	-
Transfer to Lifetime ECL not credit impaired	(12,562)	12,562	-	-
Transfer to Lifetime ECL credit impaired	(726)	-	726	-
New financial assets originated or purchased	131,055	-	-	131,055
Financial assets that have been derecognised during the period (including write-offs)	(132,645)	(155)	(66)	(132,866)
Balance at 30 June	**682,475**	**12,562**	**925**	**695,962**

	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
Transfer 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

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.

NOTE 3: LOANS AND ADVANCES (cont)

3.2 IMPAIRMENT OF LOANS AND ADVANCES (cont)

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.

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.

NOTE 3: LOANS AND ADVANCES (cont)

3.2 IMPAIRMENT OF LOANS AND ADVANCES (cont)

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.

		2020 $'000	2019 $'000
NOTE 4: LIQUIDITY			
4.1	**CASH AND CASH EQUIVALENTS**		
(a)	**Cash and cash equivalents**		
	Cash on hand	97	99
	Deposits with Authorised Deposit-taking Institutions ("ADI")	38,540	32,173
		38,637	**32,272**

The effective interest rate on short-term ADI deposits was 0.65% (2019: 1.31%).

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:

	2020 $'000	2019 $'000
Cash and cash equivalents	38,637	32,272
	38,637	**32,272**

(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)

(b) Notes to the statement of cash flows (cont)

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

	2020 $'000	2019 $'000
Profit after income tax	**1,863**	**2,604**
Non-cash flows in profit after income tax:		
Amortisation	228	372
Depreciation	454	461
Provision for loan impairment	238	220
Loss on sale of property, plant and equipment	(8)	(10)
Change in assets and liabilities:		
(Increase)/Decrease in other receivables	326	(148)
(Increase)/Decrease in prepayments	(35)	107
Increase/(Decrease) in other payables	(2,022)	1,287
Increase/(Decrease) in deferred and income taxes	(508)	(692)
Increase/(Decrease) in provisions	9	75
Net movement in financial assets at amortised cost	(23,139)	(5,923)
Net movement in loans and advances	1,751	(2,657)
Proceeds from borrowings	34,999	20,000
Net movements in deposits	(6,699)	(4,935)
Net cash provided by/(used in) operating activities	**6,805**	**10,761**

		2020 $'000	2019 $'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, which mainly 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

All equity instruments which include those classified as financial assets through other comprehensive income are not subject to impairment under AASB 9.

		2020 $'000	2019 $'000
(b)	**Financial assets at amortised cost**		
	Deposits with ADIs	129,992	106,853
		129,992	**106,853**
	Amount of financial assets at amortised cost expected to be recovered more than 12 months after the reporting date	26,750	28,700
	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)).		

	2020 $'000	2019 $'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

AASB 9 impairment requires 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 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 as at reporting date.

4.3 DEPOSITS

	2020 $'000	2019 $'000
Call deposits (including withdrawable shares)	338,104	300,852
Negotiable certificates of deposit	47,885	92,329
Term deposits	334,334	333,840
Accrued interest	2,560	3,550
	722,883	**730,571**
Amount of deposits expected to be settled more than 12 months after the reporting date	38,348	55,402
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	38.76%	36.15%
$ value of deposits	280,217	264,082

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)

		2020 $'000	2019 $'000
4.4	**BORROWINGS**		
(a)	**Borrowings**		
	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 April 2021	15,000	-
	Unsubordinated floating rate notes due December 2021	10,000	10,000
	Unsubordinated floating rate notes due March 2022	10,000	10,000
	Unsubordinated floating rate notes due December 2022	10,000	-
	RBA Term Funding Facility due April 2023	9,999	-
		74,999	**40,000**
	Amount of borrowings expected to be settled more than 12 months after the reporting date.	39,999	40,000

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.

The Term Funding Facility (TFF) was established in March 2020 by the Reserve Bank of Australia (RBA) as part of a comprehensive policy package to support the Australian economy in the face of economic and financial disruptions resulting from the COVID-19 pandemic. The TFF provides a source of low-cost funding for the banking system, with funding available for three year terms at a fixed interest rate of 0.25 per cent. The TFF borrowings are secured by senior securities issued by QPCU Heroes Trust No. 1, see Note 4.5.

(b) Borrowing facilities

The group has a gross borrowing facility as follows:	Approved Facility $'000	Current Borrowing $'000	Net Available $'000
2020			
Overdraft facility - Indue Ltd	1,000	-	1,000
	1,000	**-**	**1,000**
2019			
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.

		2020 $'000	2019 $'000
NOTE 4: LIQUIDITY (cont)			
4.5	**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 loans 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:		
	Carrying amount of transferred assets	**70,641**	**91,071**
	Carrying amount of associated liabilities	**74,388**	**93,578**
	For those liabilities that have recourse only to the transferred assets:		
	Fair value of transferred assets	70,641	91,071
	Fair value of associated liabilities	74,388	93,578
	Net position	**(3,747)**	**(2,507)**
(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 $70,640,984 as at 30 June 2020 (2019: $91,071,104).		
	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 as 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 risks are:

- Interest rate risk;
- Credit risk;
- Liquidity and funding risk;
- Operational risk (including IT security and cyber risk, and technology and systems risk);
- Capital adequacy;
- Reputational risk;
- Culture and conduct risk;
- Regulatory risk; 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; the 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, the risk culture framework 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 to the Chief Executive Officer (CEO) to manage the business. The CEO may sub-delegate certain authorities, 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 and systems, 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 three 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 three 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, governance and compliance team, headed by the Chief Risk and Governance Officer. The risk, governance and compliance team is responsible for: adapting and improving the risk management framework, the compliance framework and the risk 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, 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 day-to-day 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 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 have reduced the ability to reprice deposit products fully for any cash rate decreases. QBANK manages this in various ways including consideration of the impact 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	
2020							
Financial Assets							
Cash and cash equivalents	38,540	-	-	-	97	38,637	0.65%
Other receivables	-	-	-	-	1,154	1,154	
Financial assets at amortised cost	46,700	81,792	1,500	-	-	129,992	1.34%
Financial assets at fair value through other comprehensive income	-	-	-	-	2,568	2,568	
Loans and advances	496,343	56,703	142,274	-	-	695,320	3.84%
Total Financial Assets	**581,583**	**138,495**	**143,774**	**-**	**3,819**	**867,671**	
Financial Liabilities							
Deposits	340,663	343,871	38,348	-	-	722,882	1.49%
Borrowings	65,000	-	9,999	-	-	74,999	2.12%
Other payables	-	-	-	-	3,177	3,177	
Total Financial Liabilities	**405,663**	**343,871**	**48,347**	**-**	**3,177**	**801,058**	
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**	

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

Based on calculations as at 30 June 2020, the change in present value of interest bearing assets and interest-bearing liabilities for a 2% (2019: 2%) movement in interest rates would be $86,800 (2019: $268,800). 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.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

i. Credit quality analysis (cont)

	2020			
	Stage 1 Collective	Stage 2 Specific	Stage 3 Specific	Total
	$'000	$'000	$'000	$'000
Loans and advances at amortised cost				
Performing				
– Neither past due or impaired	682,474	-	-	682,474
– Past due but not impaired	-	12,562	-	12,562
Non-Performing				
– Individually impaired	-	-	926	926
Allowance for impairment	(378)	(96)	(182)	(656)
Carrying amount	**682,096**	**12,466**	**744**	**695,306**
Financial assets at amortised cost				
Performing	129,992	-	-	129,992
Loss allowance	-	-	-	-
Carrying amount	**129,992**	**-**	**-**	**129,992**
Loan commitments				
Performing	8,199	-	-	8,199
Allowance for impairment	-	-	-	-
Amount reported as a provision (liability)	**-**	**-**	**-**	**-**
Financial assets at FVOCI				
Performing	2,568	-	-	2,568
Loss allowance	-	-	-	-
Carrying amount	**2,568**	**-**	**-**	**2,568**

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

i. Credit quality analysis (cont)

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

	2020	2019
	$'000	$'000
Loans and advances with no collateral	15,754	17,650
Loans and advances with collateral	680,207	680,123
Total loans and advances	**695,961**	**697,773**

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.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

	2020 $'000	2019 $'000
Loan-to-value ratio (LVR)		
Residential mortgage loans		
Less than 60%	225,301	213,909
61-80%	289,164	302,333
81-90%	101,711	103,395
91-100%	54,430	50,511
More than 100%	-	-
Total	**670,606**	**670,148**
Credit-impaired loans		
Less than 60%	312	223
61-80%	-	-
81-90%	199	515
91-100%	384	378
More than 100%	-	-
Total	**895**	**1,116**

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 bank 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 bank'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 bank 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 bank 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 bank 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 bank 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 bank 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 bank 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 bank 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 bank 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 bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the bank 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 bank (excluding hardship relief granted pursuant to the bank's approved policies);
- the borrower has breached an advised limit for more than 90 days for overdrafts;
- the bank 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 bank for regulatory capital purposes.

(c) Incorporation of forward-looking information

The bank 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 bank 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 bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The bank 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 2020 included the following ranges of Australian key indicators for the years ending 30 June 2020 and 2019.

	30 June 2020	30 June 2019
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 were as follows:

30 June 2020	Base	Upside	Downside
All portfolios	40%	10%	50%
30 June 2019	**Base**	**Upside**	**Downside**
All portfolios	60%	30%	10%

There continues to be uncertainty on how COVID-19 and its social and economic consequences will flow through to macroeconomic outcomes and consequently credit losses for the bank. Over the bank's history, the credit loss experience has been very low and with little variation or correlation to economic cycles. The high credit quality of loans and advances, and concentration to government employees, supports this low loss experience and expectations for continued low losses compared to industry averages.

The downside economic scenario weighting has been increased for 30 June 2020 to address the COVID-19 impacts on the economy and the potential impacts on default and loss rates from higher unemployment and depressed property markets. Uncertainty still exists regarding the duration of the COVID-19 pandemic-related restrictions, the anticipated impact of government stimulus and regulatory actions.

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

(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.

LGD is the magnitude of the likely loss if there is a default. The bank 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 bank 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 bank 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 bank 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 bank measures ECL over a period longer than the maximum contractual period. These facilities do not have a fixed term or repayment structure. The bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the bank 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 bank 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 bank 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	$129,992	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 $703,504,000 (2019: $702,268,000). 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	
	2020	2019	2020	2019
Geographical Area				
Brisbane	45.53%	46.25%	316,900	322,749
Queensland - other than Brisbane	48.63%	48.42%	338,433	337,873
Industry				
Qld Government employees	76.89%	76.42%	524,195	520,109

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

NOTE 5: RISK AND CAPITAL MANAGEMENT (cont)

5.2 RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

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.

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;
- Granting and management of hardships, including the treatment of loans impacted by COVID-19;
- 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 practice 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 practice 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 APRA 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 day-to-day 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 Tier 1 capital. The maximum exposure is 35% for corporate banking and payment service providers, but generally 25%, of total capital (2019: 25%). Credit grade concentration limits are set by reference to total portfolio size.

Under the Liquidity Management Policy 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 capital base and total investment portfolio.

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

	2020	2019
	$'000 Carrying value	$'000 Carrying value
ADIs – rated A and above*	42,301	29,801
ADIs – rated A– to BBB*	78,799	68,160
Indue Ltd (unrated)	8,892	8,892
(*Standard and Poor's)	**129,992**	**106,853**

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 15% (2019: 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:

	2020	2019
	%	%
Liquid funds to total adjusted liabilities:		
- As at 30 June	20.28%	17.37%
- Average for the year	18.30%	16.75%
- Minimum for the year	15.50%	14.88%
Liquid funds to total member deposits:		
- As at 30 June	23.33%	19.04%

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
2020							
Financial Liabilities							
Deposits	397,306	103,441	187,007	40,723	-	728,477	722,882
Borrowings	49	186	35,588	40,453	-	76,276	74,999
Other payables	3,177	-	-	-	-	3,177	3,177
Total Financial Liabilities	**400,532**	**103,627**	**222,595**	**81,176**	**-**	**807,930**	**801,058**
Off-Balance Sheet Items							
Undrawn Commitments - Note 6.1(b)	107,649	-	-	-	-	107,649	-
Total Off-Balance Sheet Instruments	**107,649**	**-**	**-**	**-**	**-**	**107,649**	**-**
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	-
Total Off-Balance Sheet Instruments	**95,330**	**-**	**-**	**-**	**-**	**95,330**	**-**

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 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. The Board and senior management identify key risks and the management of these risks 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 authorised delegations and clear position accountabilities and responsibilities, as well as relevant policies and procedures;
- 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 and escalation procedures in relation to member complaints;
- Contingency plans including testing these plans for dealing with loss of systems functionality, premises or staff;
- Insurance arrangements to reduce the impact of unexpected losses.

(i) Fraud

QBANK has systems in place internally and in partnership with third parties which are considered to be effective for managing any material fraud risk. In addition, the risk is mitigated by holding appropriate insurance policies.

(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.

	2020 $'000	2019 $'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.

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).

	2020 $'000	2019 $'000
Capital in QBANK is made up as follows:		
Tier 1 Capital		
Common Equity Tier 1 Capital		
Retained earnings	75,949	74,125
Asset revaluation reserve	4,520	4,520
General reserve	397	388
Less prescribed deductions	(2,774)	(2,953)
Net Common Equity Tier 1 Capital	**78,092**	**76,080**
Additional Tier 1 Capital	-	-
Net Tier 1 Capital	**78,092**	**76,080**
Tier 2 Capital		
Reserve for credit losses	2,032	1,914
Net Tier 2 Capital	**2,032**	**1,914**
Total Capital	**80,124**	**77,994**

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 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%. (2019: 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:

2020	2019	2018	2017	2016
20.77%	**20.71%**	**19.93%**	**19.22%**	**18.56%**

		2020 $'000	2019 $'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	15	17
	Longer than 1 year and not longer than 5 years	-	-
	Longer than 5 years	-	-
		15	**17**
(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	8,199	4,981
	Undrawn overdraft, line of credit and credit cards	31,787	31,193
	Amounts available for redraw	67,663	59,156
		107,649	**95,330**

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 2020 was $Nil (2019: $Nil).

(b) Guarantees

QBANK has provided guarantees on behalf of members. The maximum liability of the guarantees is limited to $68,121 (2019: $68,121). As at 30 June 2020, QPCU Limited is unaware of any claim in relation to these guarantees.

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

		2020 $'000	2018 $'000
7.1	**PROPERTY, PLANT AND EQUIPMENT**		
(a)	**Carrying Values**		
	Owner Occupied Property		
	At fair value	6,686	6,686
	Accumulated depreciation	(334)	(167)
		6,352	**6,519**
	Plant and Equipment		
	At cost	3,858	3,787
	Accumulated depreciation	(3,196)	(3,046)
		662	**741**
	Total Property, Plant and Equipment	**7,014**	**7,260**

		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 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**
	Additions	-	220	220
	Disposals	-	(12)	(12)
	Depreciation expense	(167)	(287)	(454)
	Net revaluation movement	-	-	-
	Balance at 30 June 2020	**6,352**	**662**	**7,014**

(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 2020 was $Nil (2019: $Nil).

	2020 $'000	2019 $'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	(1,339)	(1,286)
Net book value	**774**	**827**

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 2020	Range of Inputs 2019	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 which included an external appraisal of the Brisbane commercial property market relevant to the type and location of property held by the bank.

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.

		2020 $'000	2019 $'000
NOTE 7: OTHER INFORMATION (cont)			
7.2	**INVESTMENT PROPERTY**		
	Movements		
	Balance at beginning of year	9,624	9,624
	Fair value adjustments	-	-
	Disposals	-	-
	Closing balance	**9,624**	**9,624**
	Leases Receivable		
	Future minimum lease payments expected to be received in relation to non-cancellable leases:		
	0-1 year	465	560
	1-5 years	344	158
	>5 years	-	-
		809	**718**

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 $642k (2019: $692k) and incurred direct operating expenses of $460k (2019: $437k) 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 2020 was $Nil (2019: $Nil).

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 2020	Range of Inputs 2019	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 which included an external appraisal of the Brisbane commercial property market relevant to the type and location of property held by the bank.

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.

		2020 $'000	2019 $'000
7.3	**INTANGIBLE ASSETS**		
(a)	**Carrying amounts**		
	Computer software at cost	1,539	2,264
	Accumulated amortisation	(1,332)	(1,879)
	Closing balance	**207**	**385**
(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	385	397
	Additions	50	360
	Disposals	-	-
	Amortisation expense	(228)	(372)
	Closing balance	**207**	**385**

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.

		2020 $'000	2019 $'000
NOTE 7: OTHER INFORMATION (cont)			
7.4	**OTHER LIABILITIES**		
(a)	**Other payables**		
	Annual leave	423	336
	Clearing accounts	1,649	2,580
	Sundry creditors	943	1,128
	Deferred income	162	163
		3,177	**4,207**
(b)	**Provisions**		
	Provision for long service leave	627	467
	Provision for Directors retirement benefits	-	150
		627	**617**

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.

		2020 $	2019 $
7.5	**RELATED PARTIES**		
(a)	**Key Management Personnel**		
(i)	**Remuneration of key management personnel (KMP)**		
	Compensation of KMPs in total and for each of the following categories was as follows:		
	- Short term employee benefits	1,905,386	1,809,950
	- Post-employment benefits including superannuation contributions	171,409	182,359
	- Other long term benefits including long service leave provision and annual leave	131,800	149,115
	- Termination benefits	12,695	-
		2,221,290	**2,141,424**

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 2016 Annual General Meeting of QBANK.

	2020 $	2019 $
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	2,628,543	399,693
Aggregate value of other credit facilities at year end	87,500	104,500
Amounts drawn down included in the aggregate value	21,945	19,653
Net balance available	65,555	84,847
During the year the aggregate value of revolving credit facility limits granted or increased/ (decreased)	(17,000)	15,500
Interest and other revenue earned on loans and revolving credit facilities	57,020	19,166
(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	1,222,698	1,055,806
Total interest paid on these deposits during the year	15,843	20,238
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	211,340	580,973
Interest and other revenue earned on loans	26,164	52,973
Other transactions with related parties		
Deposits are held under the same conditions as normal depositors.		
Total value term and savings deposits at year end	2,172	2,166
Total interest paid on these deposits during the year	12	27

	2020 $	2019 $
NOTE 7: OTHER INFORMATION (cont)		
7.6 REMUNERATION OF AUDITORS		
Remuneration of the auditor for:		
Auditing and reviewing financials statements	120,000	119,000
Other statutory assurance services - auditing and review of prudential returns	34,000	32,800
Non audit services - taxation services	27,182	22,357
Non audit services - Other business consulting services	4,820	4,360
	186,002	**178,517**

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
2020				
Financial assets at fair value through other comprehensive income	-	-	2,568	2,568
2019				
Financial assets at fair value through other comprehensive income	-	-	2,568	2,568

(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
2020					
Financial assets					
Loans and advances	-	705,532	-	705,532	695,320
Financial liabilities					
Deposits	-	726,465	-	726,465	722,882
2019					
Financial assets					
Loans and advances	-	706,882	-	706,882	697,306
Financial liabilities					
Deposits	-	734,276	-	734,276	730,571

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.

NOTE 7: OTHER INFORMATION (cont)

7.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

QPCU Heroes Trust No 1 is a 100% (2019: 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

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:

- 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 (2019: 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.

NOTE 7: OTHER INFORMATION (cont)

7.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

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 4.5.

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)

Application

Cash and cash equivalents - refer to Note 4.1

Loans and advances - refer to Note 3.1

Investment securities

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

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

Deposits - refer to Note 4.3

Borrowings - refer to Note 4.4

NOTE 7: OTHER INFORMATION (cont)

7.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) Fair 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.

(e) Leases

Lease income from 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 leases. Payments made under 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 2019. Except for the impact of adoption of AASB16 as disclosed in Note 1.3, there are no new and amended accounting standards and interpretations that became effective as of 1 July 2019 that have material impact to the group.

NOTE 7: OTHER INFORMATION (cont)

7.10 AUSTRALIAN ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 30 June 2020. They have not been adopted in preparing the financial statements for the year ended 30 June 2020 and the entity intends to apply these standards from application date as indicated in the table below.

	Application date
Amendments to AASB 3 - Definition of a Business • Clarifies the definition of a 'business' in AASB 3 Business Combinations to assist in determining whether a transaction should be accounted for as a business combination or as an asset acquisition.	1 January 2020
Amendments to AASB 101 and AASB 108 - Definition of Material • AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors include a definition of 'materiality' which must be applied when judging whether information should be included, or amounts adjusted, in the financial statements. • Consequential amendments have also been made to ensure that the definition of 'material' is consistent across all IFRS Standards, as well as the Revised Conceptual Framework (2018) and IFRS Practice Statement 2 Making Materiality Judgements.	1 January 2020
Amendments to AASB 7, AASB 9 and AASB 139 - Interest Rate Benchmark Reform • These amendments were issued by the Australian Accounting Standards Board in October 2019 and modify some of the hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by interest rate benchmark reform. • The amendments also require disclosure of additional information about hedging relationships that are directly affected by the uncertainties caused by interest rate benchmark reform.	1 January 2020
Amendments to AASB 1054 - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia • Added a new paragraph 17 to AASB 1054 Australian Additional Disclosures which clarifies that, in complying with paragraph 30 of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, entities intending to assert compliance with IFRS must also disclose the potential effect of IFRS standards that are yet to be issued by the AASB.	1 January 2020
Amendments to AASB 101- Classification of Liabilities as Current or Non-current • There are four main changes to the classification requirements: 1. The requirement for an 'unconditional' right has been deleted from paragraph 69(d) because covenants in banking agreements would rarely result in unconditional rights; 2. The right to defer settlement must exist at the end of the reporting period. If the right to defer settlement is dependent upon the entity complying with specified conditions (covenants), the right to defer only exists at reporting date if the entity complies with those conditions at reporting date; 3. Classification is based on the right to defer settlement, and not intention (paragraph 73); and 4. If a liability could be settled by an entity transferring its own equity instruments prior to maturity (e.g. a convertible bond), classification is determined without considering the possibility of earlier settlement by conversion to equity, but only if the conversion feature is classified as equity under AASB 132.	1 January 2022
AASB 2020-4 (Issued June 2020) - Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions • Introduces a practical expedient that permits lessees not to assess whether a rent concession that occurs as a direct consequence of the COVID-19 pandemic is a lease modification, provided all of the following criteria are met: • Change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately prior to the change • Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a concession would meet this condition if it resulted in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021), and • There is no substantive change to other terms and conditions of the lease. • In such cases, the concessions are accounted for as if they were not a lease modification.	Annual reporting periods beginning on or after 1 June 2020

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 2020 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
Deputy Chair

Dated 22nd October 2020

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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 2020, 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 2020 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 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

BDO

Tim Kendall

T J Kendall

Director

Brisbane, 22nd October 2020

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

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

Oxley
Queensland Police Academy
Access limited to QPS staff and recruits
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