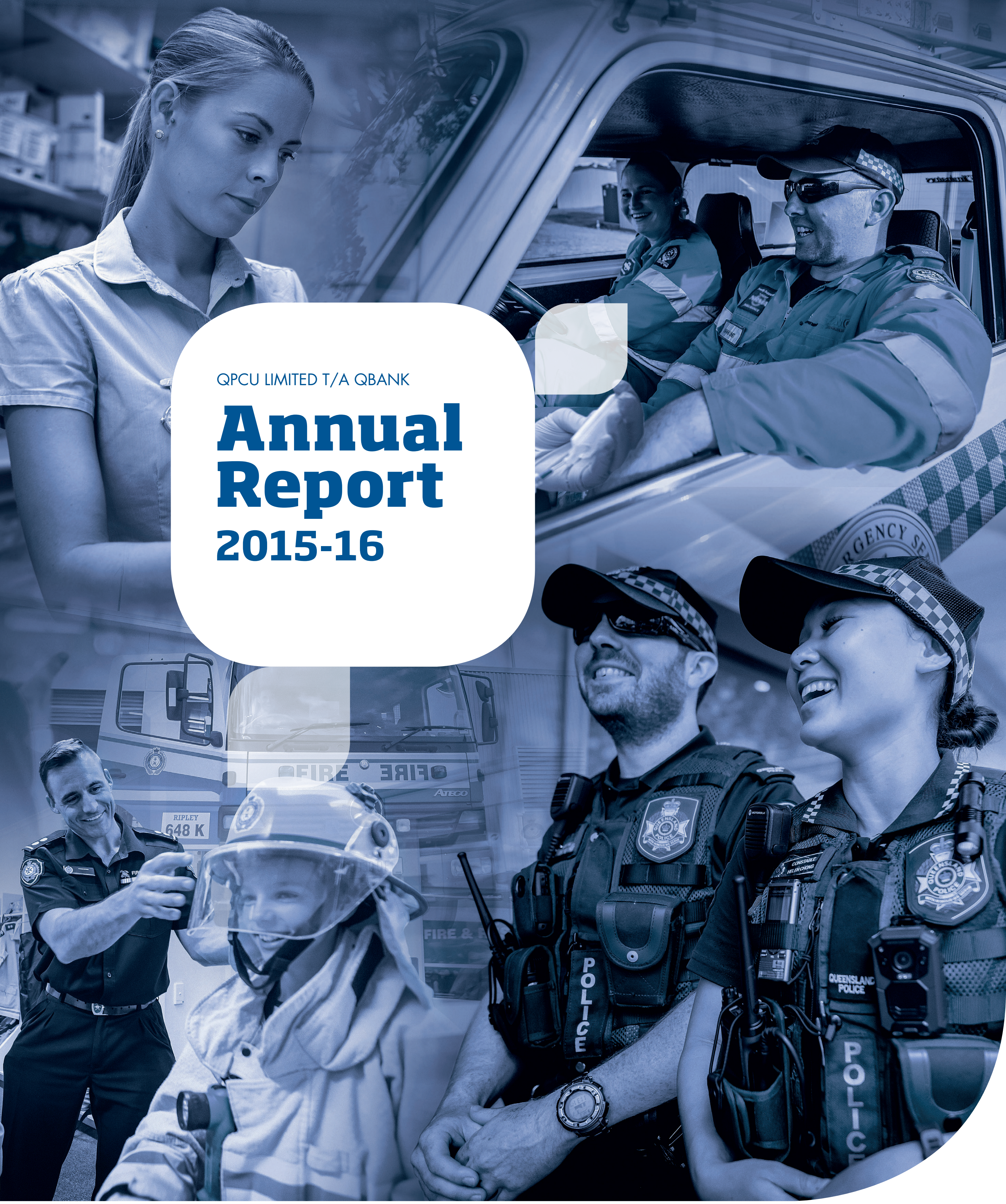
QPCU LIMITED T/A QBANK

Annual Report 2015-16



QBANK

POLICE • FIRE • HEALTH • PUBLIC SERVICE • JUSTICE

Contents

QPCU Limited T/A QBANK
A.B.N. 79 087 651 036
AFSL No. 241413
Australian Credit Licence No. 241413
30 June 2016

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

POSTAL ADDRESS
PO Box 13003, George Street QLD 4003

DIRECTORS
J Steinkamp
R Brownhill
J Just
N Ide
I Leavers
P Wilson
A Henderson
D Keating
D Morton

CHIEF EXECUTIVE OFFICER
G P Devine

COMPANY SECRETARY
J King

AUDITORS
BDO Audit Pty Ltd

BANKERS
Westpac Banking Corporation

Member of Indue Ltd
Member of the Federation of Police Mutuals
Member of the Credit Union Financial Support System Ltd
Member of Customer Owned Banking Association

INFORMATION ON OFFICEHOLDERS

JILLIAN STEINKAMP, APM (CHAIRMAN)

LLB, Grad Cert App Mgt, GAICD

Non-Executive Director since 2009.

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

Special responsibilities:
- Member of the Governance and Remuneration Committee
- President of the Federation of Police Mutuals

RAY BROWNHILL (VICE CHAIRMAN)

LLB, Grad Cert App Mgt, GAICD

Non-Executive Director since 2013.

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

Special responsibilities:
- Chairman of the Governance and Remuneration Committee

JOHN JUST, PSM

BBus, FCPA, FAICD

Non-Executive Director since 2010.

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

Special responsibilities:
- Chairman of the Audit Committee

NEVILLE IDE

BBus, MCOM, FCPA, FAICD

Non-Executive Director since 2013.

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

Special responsibilities:
- Chairman of the Risk and Compliance Committee

IAN LEAVERS

GAICD, JP (Qual)

Non-Executive Director since 2013.

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

Special responsibilities:
- Member of the Audit Committee

PAUL WILSON, APM

GAICD

Non-Executive Director since 2013.

Mr Wilson was former Assistant Commissioner - Queensland Police Service.

Special responsibilities:
- Member of the Risk and Compliance Committee

ANDY HENDERSON APM

BA, GAICD

Non-Executive Director since 2014.

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

Special responsibilities:
- Member of the Governance and Remuneration Committee

DAN KEATING

BA, MPubAd, Grad Cert App Mgt, GAICD

Non-Executive Director since 2014.

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

Special responsibilities:
- Member of the Risk and Compliance Committee

DARYLL MORTON
BBus, GAICD

Non-Executive Director since 27 November 2015.

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

Special responsibilities:
- Member of the Audit Committee

LAURIE TAYLOR (VICE CHAIRMAN) (CEASED AS DIRECTOR 27 NOVEMBER 2015)
JP (QUAL), MAICD

Non-Executive Director since 1994.

Mr Taylor is a retired Sergeant of the Queensland Police Service and is a Court Officer of the Federal Court of Australia.

Special responsibilities:
- Member of the Audit Committee

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

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

Company Secretary since June 2015. Ms King is a qualified Company Secretary and solicitor with experience of Governance, Company Secretarial and Corporate and Commercial law. Ms King was formerly, the Company Secretary and Legal Counsel, Exoma Energy Limited and Group Legal Counsel of AWT International Limited. She is an associate member of the Governance Institute of Australia.

All directors and the company secretary have held their office from 1 July 2015 to the date of this report unless otherwise stated.

Directors' Meeting Attendance

Director	Board		Audit Committee		Board Committees	
	E	A	E	A	E	A
J M Steinkamp	12	11	-	-	5	5
L A Taylor	5	5	2	2	-	-
J C Just	12	12	4	4	-	-
N J Ide	12	12	-	-	5	5
R F Brownhill	12	12	-	-	5	5
I Leavers	12	9	4	3	-	-
P A Wilson	12	12	-	-	6	6
A Henderson	12	12	-	-	6	6
D Keating	12	11	-	-	5	5
D Morton	7	7	2	2	-	-

E = Eligible to Attend A= Attended

Directors' Report

Your Directors present their report on the affairs of QPCU Limited for the financial year ended 30 June 2016.

Insurance and Indemnification of Officer or Auditor

Insurance premiums have been paid to insure each of the Directors and Officers of QPCU Limited (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.

Principal Activities

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

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

Operating Results

The net profit of QBANK for the year after providing for income tax was $2,462,517 (2015: $1,868,612).

Dividends

Dividends totalling $110,796 (2015: $117,603) were declared and paid on 30,000 Tier 1 redeemable preference shares. Dividend payments are paid and reset quarterly as determined by Australian Mutual T1 Capital Funding Trust. The declaration and payment of dividends during the year were approved by resolutions of the Directors. Subsequent to year end, a dividend for the September 2016 quarter amounting to $31,494 has been approved by the Board.

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.

Review of Operations

QBANK is a mutual bank operating as an Authorised Deposit Taking Institution offering a full range of retail financial products and services to its members. This includes deposit, investment and loan products, and transactional services provided directly to its members. It also offers as agent insurance products, salary sacrifice, investment planning and motor vehicle broking services to its members. These areas form the predominant part of its operations and generate the bulk of its profit. QBANK also owns commercial office premises used to derive rental income.

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

The 2016 financial year was a very successful year for QBANK, funding $210m in new lending over the year, a 153% increase on the prior financial year. This was due to entry into the new mortgage broker network as a distribution channel, improved direct sales capabilities and competitive loan pricing offered. Cash and investment assets were increased to maintain liquidity levels in line with the increased balance sheet. Annual retail deposit growth (excluding wholesale deposits) was 14.62% to fund this growth in loan balances, an increase on the previous years growth. Due to these factors, total assets increased 22.7% and Funds Under Management increased 23.8% year on year.

QBANK's Issuer Credit Rating with Standard and Poors was confirmed during the year. The issuance of Negotiable Certificates of Deposits successfully continued during the year, being our first full year as an issuer. QBANK issuance increased from $9m to $98m. Pricing continued to be favourable compared to other funding sources. During the year $7.6m of mortgage secured loans were sold into the Trinity Mortgage Trust to assist funding further new business. At 30 June 2016 the Term Loan and Standby facilities provided by Cuscal Limited were withdrawn as they no longer offer these facilities to the market.

On 6 July 2015, $67.6m in mortgage secured loans were sold to QBANK's internal securitisation vehicle, the QPCU Heroes Trust, and $70.3m in notes issued by the trust to QBANK. Further, a top-up was undertaken on 31 May 2016, with a further $38m of mortgage secured loans sold to the trust and $40m in notes issued by the trust to QBANK.

The senior notes in the Trust are AAA rated and eligible for repurchase by the Reserve Bank of Australia. This facility will be used to mitigate future liquidity risks faced by the bank.

Profit before income tax was $3.51m compared to $2.66m for the previous year. Profit was boosted by a gain on sale of investment properties of $1.05m. Profit before income tax from ordinary operations was $2.46m (excluding sale of properties) compared to $3.84m for the previous year (excluding fair value adjustment to property).

Net Interest Income grew 2.97% due to the increase in Funds Under Management, but impacted by strong competition for loans and deposits affecting pricing and a RBA cash rate reduction of 0.25% during the year, which had a negative impact on margin. Higher levels of liquidity were maintained also to mitigate against liquidity risk. These factors are reflected in the Net Interest Margin ratio decreasing from 2.47% last year to 2.31% in this financial year.

Non-interest income declined marginally by 0.43% compared to last financial year. Overhead costs grew by 10.83% on the previous year as strategic longer term investments were made to improve our competitiveness within our market. This planned increase in expenditure was primarily focussed on continuing to increase our Information Technology and Marketing capabilities and thereby our competitiveness within our market, expansion and servicing of our new broker network as a distribution model, treasury activities such as issuance of Negotiable Certificates of Deposit and maintenance of our internal loans securitisation vehicle, and converting to a bank.

The capital adequacy ratio measured for prudential purposes decreased from 21.93% to 18.56% during the year. Capital adequacy was impacted by the strong asset growth, and amortisation of capital expenditure for computer software and Tier 1 capital instruments no longer being recognised for capital adequacy purposes.

Significant Changes in State of Affairs

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

Events Subsequent to the End of the Reporting Date

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

Likely Developments and Results

QBANK continues to have a strategy to further build its financial strength by adopting leading technology, and building our relationship with our target market by increasing market penetration, distribution channels, number of products per member, and expanding our social investment in this market. Initiatives are being implemented to improve quality of service delivery, member experience, and depth of relationship with members.

To support these objectives QBANK was granted approval from the Australian Prudential Regulatory Authority (APRA) to trade as a bank from 1 July 2016. A necessary first step in this process was members passing a resolution by special majority at the 2015 Annual General Meeting approving a change of name of the company to QPCU Limited.

Major risks to future prospects include: increasing government regulation resulting in higher costs and restrictions on scope of operations, emerging technologies impacting on our competitiveness within our market, increasing competition from existing market entrants and new entrants to the industry, and unexpected disruptions to the economy which can impact directly on profitability due to changes in wholesale and retail funds markets and balance sheet growth due to changes in consumer sentiment. Values of property held for business or investment purposes are expected to remain stable but due to increasing vacancies in the market of the grade of property owned by QBANK, there is a potential risk of downward movement in property values which would have a direct negative impact on future Profit and Asset Revaluation Reserve recognised. Environmental and sustainability risks are not expected to impact on QBANK's future financial performance or outcomes.

In the 2017 financial year, balance sheet growth targets are more modest than the current year, balancing sustainable growth while still aiming to increase scale and market share. QBANK's profitability is forecast to increase with increased Funds Under Management, and while investment will continue in strategic areas for increased capability and efficiencies, overhead expenses are not expected to increase at the same rate as this financial year.

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) may be seen on the website of QBANK (**www.qbank.com.au/about-us/regulatory-disclosures**).

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

Proceedings

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

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2016 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.

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

Jillian Steinkamp
Chairman

Ray Brownhill
Vice Chairman

Signed and dated this 27th day of October 2016.

BDO

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Fax: +61 7 3221 9227
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Brisbane QLD 4000,
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF QPCU LIMITED

As lead auditor of QPCU Limited for the year ended 30 June 2016, 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.

C R Jenkins

Director

BDO Audit Pty Ltd

Brisbane, 27th October 2016

QPCU LIMITED T/A QBANK

Financial Statements

30 JUNE 2016

QPCU LIMITED AND SUBSIDIARIES ABN 79 087 651 036

QBANK
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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (For the year ended 30 June 2016)

	Note	2016 $	2015 $
Interest income	2	31,307,018	31,816,068
Interest expense	2	(15,227,354)	(16,199,924)
Net interest income		**16,079,664**	**15,616,144**
Other revenue and income	3	6,070,443	5,042,524
Impairment loss on loans and advances	13(c)	(216,916)	(164,861)
Employee benefits expense		(7,690,655)	(6,775,143)
Occupancy expense		(1,195,797)	(1,183,661)
Depreciation and amortisation expense	4	(956,019)	(885,021)
Net fair value loss on investment properties	16	-	(1,182,380)
Other expenses		(8,582,066)	(7,811,525)
Profit before income tax		**3,508,654**	**2,656,077**
Income tax expense	**5**	**(1,046,137)**	**(787,465)**
Profit for the year		**2,462,517**	**1,868,612**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net changes in the fair value of cash flow hedges		20,770	(232,111)
Income tax relating to this item	5(c)	(6,231)	69,633
Items that will not be reclassified to profit or loss			
Net gain on revaluation of land and buildings	15(c)	-	837,437
Income tax relating to this item	5(c)	-	(251,231)
Other comprehensive income for the year, net of income tax		**14,539**	**423,728**
Total comprehensive income for the year		**2,477,056**	**2,292,340**

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

STATEMENT OF FINANCIAL POSITION (as at 30 June 2016)

	Note	2016 $	2015 $
Assets			
Cash and cash equivalents	8	28,433,896	13,768,210
Financial assets at fair value through other comprehensive income	9	2,396,920	2,294,120
Other receivables	10	1,419,618	1,422,253
Income tax receivable	22	241,694	213,216
Financial assets at amortised cost	11	103,636,918	71,891,281
Loans and advances	12, 13	651,023,499	547,944,372
Property, plant and equipment	15	7,458,639	7,925,597
Investment properties	16	9,356,473	10,306,473
Intangible assets	18	710,184	674,204
Other assets	19	1,024,074	319,053
Total assets		**805,701,915**	**656,758,779**
Liabilities			
Deposits	20	710,744,265	564,805,082
Other payables	21	2,590,086	1,768,302
Borrowings	23	15,157,075	15,118,457
Deferred tax liabilities	17	1,988,195	2,129,767
Derivatives	14	211,341	232,111
Provisions	24	513,145	573,512
Total liabilities		**731,204,107**	**584,627,231**
Net assets		**74,497,808**	**72,131,548**
Equity			
Tier 1 Redeemable Preference Shares	25	2,929,860	2,929,860
Redeemed preference share capital account	26	337,760	329,686
Reserves	26	5,219,703	6,633,942
Retained earnings	26	66,010,485	62,238,060
Total equity		**74,497,808**	**72,131,548**

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

STATEMENT OF CHANGES IN EQUITY (For the year ended 30 June 2015)

	Note	Tier 1 Red Pref Share Capital	Red Pref Share Capital Account	Asset Revaluation Reserve	Reserve for Credit Losses	Cashflow Hedge Reserve	Retained Earnings	Total
		$	$	$	$	$	$	$
Balance at 30 June 2014		**2,929,860**	**315,836**	**4,893,259**	**1,321,011**	**-**	**60,496,845**	**69,956,811**
Comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,868,612	1,868,612
Other comprehensive income							-	
- Net gain/(loss) on revaluation of land and buildings, net of tax		-	-	586,206	-	-	-	586,206
- Net changes in cash flow hedges, net of tax		-	-	-	-	(162,478)	-	(162,478)
Total comprehensive income for the year		**-**	**-**	**586,206**	**-**	**(162,478)**	**1,868,612**	**2,292,340**
Transfers								
- Reserve for credit losses		-	-	-	(4,056)	-	4,056	-
- Redeemed preference share capital		-	13,850	-	-	-	(13,850)	-
Total transfers		**-**	**13,850**	**-**	**(4,056)**	**-**	**(9,794)**	**-**
Transactions with owners in their capacity as owners								
Dividends paid		-	-	-	-	-	(117,603)	(117,603)
Total transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**	**(117,603)**	**(117,603)**
Balance at 30 June 2015		**2,929,860**	**329,686**	**5,479,465**	**1,316,955**	**(162,478)**	**62,238,060**	**72,131,548**

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

STATEMENT OF CHANGES IN EQUITY (For the year ended 30 June 2016)

	Note	Tier 1 Red Pref Share Capital $	Red Pref Share Capital Account $	Asset Revaluation Reserve $	Reserve for Credit Losses $	Cashflow Hedge Reserve $	Retained Earnings $	Total $
Balance at 30 June 2015		**2,929,860**	**329,686**	**5,479,465**	**1,316,955**	**(162,478)**	**62,238,060**	**72,131,548**
Comprehensive income for the year								
Profit for the year		-	-	-	-	-	2,462,517	2,462,517
Other comprehensive income								
- Net gain on revaluation of land and buildings, net of tax		-	-	-	-	-	-	-
- Net changes in cash flow hedges, net of tax		-	-	-	-	14,539	-	14,539
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**14,539**	**2,462,517**	**2,477,056**
Transfers								
- Reserve for credit losses		-	-	-	252,521	-	(252,521)	-
- Redeemed preference share capital		-	8,074	-	-	-	(8,074)	-
- Reserve for property now sold		-	-	(1,681,299)	-	-	1,681,299	-
Total transfers		**-**	**8,074**	**(1,681,299)**	**252,521**	**-**	**1,420,704**	**-**
Transactions with owners in their capacity as owners								
Dividends paid		-	-	-	-	-	(110,796)	(110,796)
Total transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**-**	**(110,796)**	**(110,796)**
Balance at 30 June 2016		**2,929,860**	**337,760**	**3,798,166**	**1,569,476**	**(147,939)**	**66,010,485**	**74,497,808**

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

STATEMENT OF CASH FLOWS (For the year ended 30 June 2016)

	Note	2016 $	2015 $
Cash flows from operating activities			
Interest received		31,307,018	31,816,068
Dividends received		82,824	54,060
Fees and commissions received		4,254,822	3,996,801
Interest paid		(14,315,707)	(16,401,437)
Payments to suppliers and employees		(17,790,989)	(16,292,877)
Income taxes paid		(1,222,418)	(1,636,377)
Other income		1,360,319	1,394,466
Net movement in financial assets at fair value through other comprehensive income		(102,800)	(1,856,720)
Net movement in financial assets at amortised cost		(31,745,637)	1,118,624
Net movement in loans and advances		(103,479,529)	18,737,814
Proceeds/(payments) - borrowings		38,618	(12,460,048)
Net movement in deposits		145,026,126	(5,189,531)
Net cash provided by/(used in) operating activities	**37(c)**	**13,412,647**	**3,280,843**
Cash flows from investing activities			
Net movement in other assets		(108,454)	101,148
Payments for property, plant and equipment		(141,453)	(147,570)
Proceeds - sale of property, plant and equipment, and intangibles		2,051,764	-
Payments for intangibles		(438,022)	(559,442)
Net cash used in investing activities		**1,363,835**	**(605,864)**
Cash flows from financing activities			
Dividends paid		(110,796)	(117,603)
Net cash used in financing activities		**(110,796)**	**(117,603)**
Total net increase/(decrease) in cash and cash equivalents		**14,665,686**	**2,557,376**
Cash and cash equivalents at the beginning of the financial year		**13,768,210**	**11,210,834**
Cash and cash equivalents at the end of the financial year	**37(a)**	**28,433,896**	**13,768,210**

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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 were authorised for issue in accordance with a resolution of directors on 27 October 2016.

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

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

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

The presentation currency for the financial statements is Australian Dollars.

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

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

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

Subsidiaries

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

QPCU Heroes Trust No 1 is a 100% (2015: 0%) owned subsidiary of QBANK incorporated and domiciled in Australia. On 2 July 2015 the bank transferred loans and advances to the QPCU Heroes Trust No 1. QBANK has retained substantially all the risk and rewards of ownership of the relevant loans and advances as it has retained credit risk and interest rate risk. Due to the retention of substantially all the risk and rewards of ownership QBANK continues to recognise the transferred assets within loans and advances and the transfer is accounted for as a secured financing transaction. As such the Parent Entity and consolidated balances are the identical and have not been presented separately.

(b) Income Tax

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 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.

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. 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.

Deferred tax assets and 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

The deferred tax liabilities in relation to investment property that is measured at fair value is determined assuming the carrying value of 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 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. 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.

Current and deferred tax is 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.

(c) Financial Assets and Financial Liabilities

Introduction

(i) Initial recognition

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

(ii) De-recognition

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

For details of the group's policy on securitisation refer to Note 1(f).

(iii) Off-setting

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

(iv) Amortised cost measurement

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

(v) Identification and measurement of impairment

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances held in banks with original maturity 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.

Loans and advances to members

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

Investment securities

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

(i) Amortised cost

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

- 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.

The group's policy on impairment of financial assets measured at amortised cost is the same as that applied to previous years for held-to-maturity investments.

(ii) Fair value

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

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

Deposits

Refer to Note 1(m) for details.

Borrowings and subordinated debt

Refer to Note 1(n) for details.

(d) Revenue

Loans and advances interest is calculated on the daily loans and advances balance outstanding and is charged in arrears to the member loan accounts once each month. Loans and advances interest income is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the asset.

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

Loan origination fee income and loan transaction costs that are direct and incremental to the establishment of loans are deferred and amortised as a component of the calculation of the effective interest rate in relation to the originated loans.

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

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

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

(e) Impairment – Loans and Advances

A provision for losses on impaired loans and advances is recognised when there is objective evidence that impairment of a loan has occurred. All loans and advances are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

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

The amount provided for impairment of loans is determined by management and the Board. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the group. Management and the Board also make a provision for loans in arrears where the collectability of the debt is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The critical assumptions used in the calculation are set out in Note 13. Note 32 B details the credit risk management approach to loan impairment.

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Bad debts are written off against the provision for impairment where an impairment has previously been recognised in relation to a loan and advance. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in profit or loss.

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

(f) 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.

(g) Fair Values

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

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

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

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

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

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

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

(h) Property, Plant and Equipment

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

Property

The owner occupied property is measured at its fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, 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 the group to have an independent valuation every three years, with annual assessments being made by the Board of Directors.

Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and impairment losses, if any.

Depreciation

The depreciable amount of all property, plant and equipment, including building 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 are 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.			

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

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.

(i) Impairment Testing 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.

(j) Investment Properties

Investment properties are held to generate long-term rental yields or for capital appreciation or both. Investment properties are carried at fair value, determined every three years by registered independent valuers using an income approach based on the estimated rental value of the property, unless a material change in value is known. Changes to fair value are recorded in profit or loss.

(k) 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 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 expenditures are expensed as incurred.

(l) Leases

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

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

(m) 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.

(n) Borrowings and Subordinated Debt

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

The group classifies financial instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Redeemable preference shares that are redeemable at the option of the entity are classified as equity. Any dividends on these preference shares are recognised in equity as a deduction from retained earnings.

(o) 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, salaries, bonuses and the value of fringe benefits received (including non-monetary benefits) that are expected to be settled wholly within twelve months of the end of the reporting period are recognised in Other Liabilities in respect of employee services provided to the end of the reporting period and are measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Long-term employee benefits

Liabilities for long service leave and annual leave that are not expected to be settled within 12 months of the end of the reporting period, are recognised as provisions for employee benefits and are measured at the present value of the expected future payments to be made in respect of services provided to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salary and wage increases, experience of

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

employee departures and periods of service. Expected future payments are discounted using the corporate bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

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

(p) Derivative Instruments Held for Risk Management Purposes

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

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

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

(q) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

(r) 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.

(s) Accounting Estimates and Judgements

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

i. Accounting treatment of loans assigned to a special purpose vehicle used for securitisation purposes – refer to Note 12(b).
ii. The classification of preference shares as equity instruments – refer to Note 25.

Management have made critical accounting estimates when applying the group's accounting policies with respect to the impairment provisions for loans – refer to Note 13.

(t) New and Amended Standards and Interpretations Adopted During the Year

There are no new and amended accounting standards and interpretations that become effective as of 1 July 2015 that have a material impact to the group.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(u) New and Amended Standards and Interpretations Issued But Not Yet Effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the entity. The entity's assessment of the impact of these new standards and interpretations is set out below.

New/revised pronouncements	Nature of change	Application date	Impact
AASB 9 *Financial Instruments* (December 2014)	The AASB has issued the complete AASB 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. This supersedes AASB 9 (issued in December 2009-as amended) and AASB 9 (issued in December 2010).	30 June 2019	AASB 9 may have a potential increase in the entity's loans and advances provisioning. However, the group has not yet fully assessed the impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018.
AASB 15 *Revenue from Contracts with Customers*	The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.	30 June 2018	The group has not yet assessed the full impact of this Standard.
AASB 2015-2 (issued January 2015) Amendments to Australian Accounting Standards Disclosure Initiative: Amendments to AASB 101	Amends AASB 101 Presentation of Financial Statements to clarify that: • Materiality applies to all primary financial statements and notes, and applies even to a list of specific, minimum disclosures • Line items can be disaggregated if doing so could influence a user's decision • Subtotals must be made up of items recognised in accordance with Australian Accounting Standards • Additional subtotals in the Statement of Profit or Loss and Other Comprehensive Income must be reconciled back to subtotals required by AASB 101 • Notes no longer need to follow the order of items in the financial statements and related items can be grouped together (e.g. all financial instruments) • Accounting policies can be placed at the end of the notes to the financial statements • Share of other comprehensive income of associates and joint ventures must be separately classified into amounts that will be reclassified to profit or loss in future, and amounts that will not be reclassified to profit or loss in future.	30 June 2017	These amendments affect presentation and disclosures only. Therefore on first time adoption of these amendments on 1 July 2016, comparatives will need to be restated in line with presentation and note ordering.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

New/revised pronouncements	Nature of change	Application date	Impact
AASB 16 Leases	Except for short-term leases (less than 12 months from commencement date, including extension options), and 'low value' items, all leases will be capitalised on the balance sheet by recognising a 'right-of-use' asset and a lease liability for the present value of the obligation. This means that we will no longer see straight-line 'rental' expense in profit or loss (except for short-term leases and low value items). All leases will incur a frontend loaded expense, Comprising depreciation on The right-of-use asset, and interest on the lease liability. When initially measuring the right-of-use asset and lease liability, non-cancellable lease payments (including inflation-linked payments), as well as payments for option periods which the entity is reasonably certain to exercise, must be included in the present value calculation. There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis. No changes to accounting for entities as a lessor, as it retains the accounting for operating and finance leases for lessors.	30 June 2020	To the extent that the group, as lessee, has significant operating leases outstanding at the date of initial application, 1 July 2019, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments. Thereafter, earnings before interest, depreciation, amortisation and tax (EBITDA) will increase because operating lease expenses currently included in EBITDA will be recognised instead as amortisation of the right-of use asset, and interest expense on the lease liability. However, there will be an overall reduction in net profit before tax in the early years of a lease because the amortisation and interest charges will exceed the current straight-line expense incurred under AASB 117 Leases. This trend will reverse in the later years.

The following standards and interpretations which are not applicable to the entity have been issued by the AASB but are not yet effective for the period ended 30 June 2016:

New/revised pronouncements	Application date
AASB 14 *Regulatory Deferral Accounts*	30 June 2017
AASB 2014-4 Amendments to Australian Accounting Standards - *Clarification of Acceptable Methods of Depreciation and Amortisation*	30 June 2017

	2016 $	2015 $
NOTE 2: INTEREST INCOME AND INTEREST EXPENSE		
(a) Interest income		
(i) Assets at amortised cost		
Cash and cash equivalents	404,468	204,586
Financial assets at amortised cost	2,331,256	2,173,997
Financial assets held-to-maturity	-	-
Loans and advances	28,245,552	29,115,522
Deferred loan fee income	91,987	109,986
Other	9,261	8,738
	31,082,524	**31,612,829**
(ii) Assets at fair value		
Interest rate swaps	224,494	203,239
	224,494	**203,239**
Total interest income	**31,307,018**	**31,816,068**
(b) Interest expense		
(i) Liabilities at amortised cost		
Deposits from wholesale depositors	3,516,752	2,429,062
Deposits from retail members	10,984,394	12,866,883
Interest on securitisation	349,952	406,937
Other borrowings	41,442	242,729
	14,892,540	**15,945,611**
(ii) Liabilities at fair value		
Interest rate swaps	334,814	254,313
	334,814	**254,313**
Total interest expense	**15,227,354**	**16,199,924**

	2016 $	2015 $
NOTE 3: OTHER REVENUE AND INCOME		
Dividends received	82,824	54,060
Fees and commissions	3,577,560	3,593,998
Gain on sale of investment property	1,049,740	-
Bad debts recovered	59,272	27,207
Rental income from investment properties	1,128,352	1,266,619
Other	172,695	100,640
Total other revenue and income	**6,070,443**	**5,042,524**
NOTE 4: PROFIT BEFORE INCOME TAX		
Profit before income tax has been determined after the following items:		
Depreciation and amortisation expense		
Amortisation of intangible assets (refer Note 18(b))	402,042	313,815
Depreciation of property, plant and equipment		
- owner occupied property (refer Note 15(b))	156,406	142,529
- plant and equipment (refer Note 15(b))	397,571	428,677
	956,019	**885,021**
Other expenses		
General and administration	1,140,120	1,236,112
Marketing & promotion	1,747,249	1,153,844
Member service costs	2,524,549	2,510,541
Net loss on disposal of non-current assets:		
- property, plant and equipment	2,410	22,710
*** Employee benefits expense includes contributions to superannuation of $ 552,434 (2015: $476,794).**		

		2016 $	2015 $
NOTE 5: INCOME TAX			
(a)	**Numerical reconciliation of income tax expense to prima facie tax payable:**		
	Tax at the Australian tax rate of 30% (2015: 30%):	1,052,594	796,823
	Add Tax effect of:		
	Non-deductible entertainment	18,828	19,220
	Other assessable income	10,970	-
		1,082,392	**816,043**
	Less Tax effect of:		
	Tax offset for fully franked dividends	(24,848)	(16,219)
	Tax building depreciation/ building allowance	(11,407)	(12,359)
		(36,255)	**(28,578)**
	Income tax expense	**1,046,137**	**787,465**
(b)	**Major components of tax expense:**		
	Current tax	1,193,942	1,207,908
	Deferred tax	(147,805)	(420,443)
		1,046,137	**787,465**
(c)	**Tax expense/(income) relating to items of other comprehensive income**		
	Deferred tax		
	Net changes on revaluation of land and buildings	-	(251,231)
	Net changes in cash flow hedge	(6,231)	69,633
		(6,231)	**(181,598)**
(d)	**Franking account**		
	Balance of franking account at year-end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the end of the reporting date based on a tax rate of 30% (2015: 30%)	**22,892,923**	**21,710,971**

		2016 $	2015 $
NOTE 6: REMUNERATION OF AUDITORS			
	Remuneration of the auditor for:		
	- Auditing and reviewing financials statements	104,000	97,000
	- Auditing and review of prudential returns	30,250	43,150
	- Taxation services	26,359	34,344
	- Other business consulting services	3,035	22,097
		163,644	**196,591**

		2016 $	2015 $
NOTE 7: KEY MANAGEMENT PERSONNEL			
(a)	**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	1,742,392	1,432,607
	- Post-employment benefits including superannuation contributions	256,999	276,202
	- Other long term benefits including long service leave provision and annual leave	175,266	137,580
	- Termination benefits	156,131	351,065
		2,330,788	**2,197,454**
	Remuneration shown as short-term benefits means (where applicable) wages, salaries, sick leave, bonuses and value of fringe benefits received, but excludes out of pocket expense reimbursements. All remuneration to Directors was approved by the members at the previous Annual General Meeting of QBANK.		
(b)	**Loans to KMP and their close family members**		
	QBANK's policy for lending to KMP is that all loans are approved and deposits accepted, on the same terms and conditions that applied to members during the year for each class of loan or deposit.		
	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	518,683	79,734
	Aggregate value of other credit facilities at year end	100,000	149,000
	Amounts drawn down included in the aggregate value	10,235	31,721
	Net balance available	89,765	117,279
	During the year the aggregate value of revolving credit facility limits granted or increased/(decreased)	(34,000)	36,000
	Interest and other revenue earned on loans and revolving credit facilities	16,531	8,643
(c)	**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	1,670,989	1,800,512
	Total interest paid on these deposits during the year	31,152	53,970
	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.		

	2016 $	2015 $

NOTE 8: CASH AND CASH EQUIVALENTS

	2016 $	2015 $
Cash on hand	148,642	106,537
Deposits with ADI's	28,285,254	13,661,673
	28,433,896	**13,768,210**
The effective interest rate on short-term bank deposits was1.82% (2015: 1.80%); these deposits are at call.		

NOTE 9: FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016 $	2015 $
Shares in unlisted entities – Indue Ltd	2,376,920	2,294,120
Shares in unlisted entities – SSP Ltd	20,000	-
	2,396,920	**2,294,120**
Amount of financial assets at fair value through other comprehensive income expected to be recovered more than 12 months after the reporting date	2,396,920	2,294,120

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

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

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

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

NOTE 10: OTHER RECEIVABLES

	2016 $	2015 $
Accrued interest	365,882	253,695
Sundry debtors	1,053,736	1,168,558
	1,419,618	**1,422,253**

NOTE 11: FINANCIAL ASSETS AT AMORTISED COST

	2016 $	2015 $
Deposits with ADI's	103,636,918	71,891,281
	103,636,918	**71,891,281**
Amount of financial assets at amortised cost expected to be recovered more than 12 months after the reporting date	25,585,661	19,622,254
Term deposits held with Indue Ltd are security for Indue Ltd providing transactional banking services and an overdraft facility of $1,000,000 provided by Indue Ltd to QBANK (Refer Note 28).		

NOTE 12: LOANS AND ADVANCES

		2016 $	2015 $
(a)	Housing loans	616,217,198	508,563,060
	Personal loans	12,665,609	15,862,451
	Commercial loans	1,565,815	1,825,383
	Overdrafts	9,816,794	10,646,545
	Credit cards	10,587,075	11,026,100
	Loss reserve loans	300,000	300,000
	Gross loans and advances	**651,152,491**	**548,223,539**
	Deferred loan funding fees	13,465	(142,188)
	Provision for impairment	(135,144)	(123,199)
	Interest on non-accrual loans	(7,313)	(13,780)
	Net loans and advances	**651,023,499**	**547,944,372**
	Amount of loans and advances expected to be recovered more than 12 months after the reporting date	580,577,344	480,573,582

NOTE 13: IMPAIRMENT OF LOANS AND ADVANCES

		2016 $	2015 $
(a)	**Provisions for impairment**		
	Opening balance	123,199	109,410
	Impairment expense	216,917	164,861
	Bad debts written off	(204,972)	(151,072)
	Closing balance	**135,144**	**123,199**
	Details of credit risk management are set out in Note 32 B		
(b)	**Provision for impairment calculation**		
	Provision prescribed by Prudential Standards	85,144	108,199
	Additional specific provision	50,000	15,000
	Closing balance	**135,144**	**123,199**

NOTE 13: IMPAIRMENT OF LOANS AND ADVANCES (cont)

Key assumptions in determining the provision for impairment

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

In identifying the impairment arising from these events QBANK is required to estimate the impairment, using the length of time the loan is in arrears, and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment as follows:

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

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

		2016 $	2015 $
(c)	**Impairment expense on loans and advances**		
	Movement in provision for impairment	216,917	164,861
	Total impairment expense on loans and advances	**216,917**	**164,861**
(d)	**Assets acquired from loan recovery**		
	There were no assets acquired by QBANK during the financial year. The policy of QBANK is to sell the assets via auction at the earliest opportunity, after the measures to assist the members to repay the debts have been exhausted.		
(e)	**Loans and advances by impairment class**		
	Net Impaired loans and advances - refer 13(f)	303,665	424,077
	Past due but not impaired - refer 13(g)	5,275,814	5,266,283
	Neither past due or impaired - refer 13(h)	645,430,555	542,396,200
	Deferred loan funding fees	13,465	(142,188)
	Carrying amount	**651,023,499**	**547,944,372**
(f)	**Impaired loans and advances at reporting date**		
	Individually impaired loans and advances	446,122	561,056
	Provision for Impairment	(135,144)	(123,199)
	Interest on Non Accrual Loans	(7,313)	(13,780)
	Total net impaired loans and advances	**303,665**	**424,077**

The above values include the balance of renegotiated loans and advances

NOTE 13: IMPAIRMENT OF LOANS AND ADVANCES (cont)

		2016 $	2015 $
(f)	**Impaired loans and advances (cont)**		
	Individually impaired loans and advances at reporting date		
	Loans by purpose		
	Housing loans	-	-
	Personal loans	22,078	65,250
	Overdrafts	424,044	495,806
		446,122	**561,056**
	Specific Provision	(135,144)	(123,199)
	Interest on Non Accrual Loans	(7,313)	(13,780)
	Carrying amount	**303,665**	**424,077**
(g)	**Past due but not impaired loans and advances at reporting date**		
	These loans are not considered impaired as the value of the related security over the residential property is in excess of the loan due. Past due values are 'on-balance sheet' loan balances		
	Loans by purpose		
	Housing loans	4,498,848	4,472,895
	Personal loans	149,298	220,643
	Overdrafts	627,668	572,745
	Carrying amount	**5,275,814**	**5,266,283**
	Aging analysis		
	Past due 0-90 days in arrears	5,275,814	5,266,283
	Carrying amount	**5,275,814**	**5,266,283**
(h)	**Neither past due or impaired loans and advances at reporting date**		
	Loans by purpose		
	Housing loans	611,718,350	504,090,165
	Personal loans	12,494,233	15,576,558
	Commercial loans	1,565,815	1,825,383
	Overdrafts	8,765,082	9,577,994
	Credit cards	10,587,075	11,026,100
	Loss Reserve Loans	300,000	300,000
	Carrying amount	**645,430,555**	**542,396,200**
	The above values include the balance of renegotiated loans and advances. All loans and advances to members that are neither past due or impaired are to long standing clients who have a good track record.		
(i)	**Collateral held**		
	QBANK holds collateral against loans and advances to customers as detailed below:		
	Loans and advances with no collateral	17,824,454	20,539,896
	Loans and advances with collateral	633,328,037	527,683,643
	Total loans and advances	**651,152,491**	**548,223,539**
	Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance and is required to be no less than 100% of the loan or advance. The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired.		

NOTE 14: DERIVATIVES

	2016 $	2015 $
Liabilities		
Interest rate swap contracts - cash flow hedges	211,341	232,111
QBANK's term deposits bear an average rate of interest of 2.98% (2015: 3.55%). In respect of the monthly interest rate swap contracts, the fixed interest rate is 3.04% (2015: 3.04%) and the variable rate between 2.10% and 1.84% during the year (2015: 2.65% and 2.03%). As at 30 June 2016, the current variable rate was 0.01% below (2015: 0.00%) the 30 day bank bill rate which was 1.85% (2015: 2.04%).		
The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:		
Less than 1 year	6,000,000	-
1 - 2 years	-	6,000,000
2 - 3 years	5,000,000	-
3 - 4 years	-	5,000,000
4 - 5 years	-	-
Total Interest Rate Swaps	**11,000,000**	**11,000,000**

The contracts require settlement of net interest receivable or payable every 1 month. Settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

Gains or losses from remeasuring the interest rate swap contracts at fair value are recognised in other comprehensive income and accumulated in the Cashflow Hedge Reserve to the extent that the hedge is effective, and reclassified in net profit when the hedged interest expense is recognised. The ineffective portion is recognised in profit or loss immediately. During the year ended 30 June 2016, there was no transfer to the profit or loss (2015: Nil).

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

		2016 $	2015 $
(a)	**Carrying Values**		
	Owner Occupied Property		
	At fair value	6,296,585	6,253,526
	Accumulated depreciation	(156,410)	-
		6,140,175	**6,253,526**
	Plant and Equipment		
	At cost	4,255,090	4,401,531
	Accumulated depreciation	(2,936,626)	(2,729,460)
		1,318,464	**1,672,071**
	Total Property, Plant and Equipment	**7,458,639**	**7,925,597**

Property, plant and equipment forms part of the security for an equitable mortgage provided to CUSCAL Ltd. Refer to Notes 23 and 28.

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (cont)

		Owner Occupied Property $	Plant and Equipment $	Total $
(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 2014	**5,558,618**	**1,974,520**	**7,533,138**
	Additions	-	147,570	147,570
	Disposals	-	(21,342)	(21,342)
	Depreciation expense	(142,529)	(428,677)	(571,206)
	Net revaluation movement	837,437	-	837,437
	Balance at 30 June 2015	**6,253,526**	**1,672,071**	**7,925,597**
	Additions	43,055	130,643	173,698
	Disposals	-	(86,679)	(86,679)
	Depreciation expense	(156,406)	(397,571)	(553,977)
	Net revaluation movement	-	-	-
	Balance at 30 June 2016	**6,140,175**	**1,318,464**	**7,458,639**

(c) Revaluation

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

The independent revaluations on 30 June 2015 were carried out by Herron Todd White (Brisbane Commercial) Pty Ltd. The fair value increment charged to other comprehensive income for the financial year ended 30 June 2016 was $Nil (2015: $837,437).

Refer Note 36 for further details of fair value measurement.

		2016	2015
(d)	**Historical Cost of Revalued Owner Occupied Property**	$	$
	If revalued strata title units were stated at historical cost, amounts would be as follows:		
	Cost	2,113,196	2,076,927
	Accumulated depreciation	(1,127,252)	(1,075,329)
	Net book value	**985,944**	**1,001,598**

	2016 $	2015 $
NOTE 16: INVESTMENT PROPERTIES		
Movements		
Balance at beginning of year	10,306,473	11,488,853
Fair value adjustments	-	(1,182,380)
Disposals	(950,000)	-
Closing balance	**9,356,473**	**10,306,473**
Operating Leases Receivable		
Future minimum lease payments expected to be received in relation to non-cancellable operating leases:		
0-1 year	822,676	1,180,126
1-5 years	413,482	1,332,086
>5 years	-	-
	1,236,158	**2,512,212**

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 $1,128,353 (2015: $1,266,619) and incurred direct operating expenses of $567,749 (2015: $595,145) in connection with these investment properties, recognised in profit or loss.

Revaluation

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

The independent revaluations on 30 June 2015 were carried out by Herron Todd White (Brisbane Commercial) Pty Ltd. The fair value decrement charged against net fair value loss on investment properties in the profit or loss for the financial year ended 30 June 2016 was $Nil (2015: $1,182,380).

Refer to Note 36 for further details of fair value measurement.

NOTE 17: DEFERRED TAX ASSETS AND LIABILITIES

		2016 $	2015 $
(a)	**Deferred Tax Assets**		
	Deferred tax assets comprise temporary differences attributable to:		
	Employee benefits	258,944	277,826
	Accrued expenses	220,138	133,729
	Derivatives/ hedge reserve	63,402	69,633
	Prepayments	(48,302)	(1,445)
	Provision for impairment	40,542	36,960
	Total deferred tax assets	**534,724**	**516,703**
	The movement in deferred tax assets for each temporary difference during the year is as follows:		
	Employee benefits		
	Opening balance	277,826	341,210
	Change recognised in profit or loss	(18,882)	(63,384)
	Closing balance	**258,944**	**277,826**
	Accrued expenses		
	Opening balance	133,729	72,701
	Change recognised in profit or loss	86,409	61,028
	Closing balance	**220,138**	**133,729**
	Derivatives/hedge reserve		
	Opening balance	69,633	-
	Charge recognised in other comprehensive income	(6,231)	69,633
	Closing balance	**63,402**	**69,633**
	Prepayments		
	Opening balance	(1,445)	931
	Change recognised in profit or loss	(46,857)	(2,376)
	Closing balance	**(48,302)**	**(1,445)**
	Provision for impairment		
	Opening balance	36,960	32,823
	Change recognised in profit or loss	3,582	4,137
	Closing balance	**40,542**	**36,960**
	Deferred tax assets closing balance	**534,724**	**516,703**

NOTE 17: DEFERRED TAX ASSETS AND LIABILITIES (cont)

		2016 $	2015 $
(b)	**Deferred Tax Liabilities**		
	Deferred tax liabilities comprise temporary differences attributable to:		
	Revaluation of investment properties	1,606,901	1,891,901
	Depreciation	(373,232)	(346,042)
	Revaluation of property, plant and equipment	1,289,250	1,100,611
	Total deferred tax liabilities	**2,522,919**	**2,646,470**
	The movement in deferred tax liabilities for each temporary difference during the year is as follows:		
	Revaluation of investment properties		
	Opening balance	1,891,901	2,246,615
	Change recognised in profit or loss	(285,000)	(354,714)
	Closing balance	**1,606,901**	**1,891,901**
	Depreciation		
	Opening balance	(346,042)	(322,473)
	Change recognised in profit or loss	(27,190)	(23,569)
	Closing balance	**(373,232)**	**(346,042)**
	Revaluation of property, plant and equipment		
	Opening balance	1,100,611	892,139
	Change recognised in profit or loss	188,639	(42,759)
	Change recognised in other comprehensive income	-	251,231
	Closing balance	**1,289,250**	**1,100,611**
	Deferred tax liabilities closing balance	**2,522,919**	**2,646,470**
	Net deferred tax liabilities closing balance	**1,988,195**	**2,129,767**

		2016 $	2015 $
NOTE 18: INTANGIBLE ASSETS			
(a)	**Carrying amounts**		
	Computer software at cost	2,553,737	2,128,250
	Accumulated amortisation	(1,843,553)	(1,454,046)
	Closing balance	**710,184**	**674,204**
(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	674,204	429,945
	Additions	438,022	559,442
	Disposals	-	(1,368)
	Amortisation expense	(402,042)	(313,815)
	Closing balance	**710,184**	**674,204**
NOTE 19: OTHER ASSETS			
	Prepaid expenses	816,938	220,373
	Work in progress	207,136	98,680
		1,024,074	**319,053**
NOTE 20: DEPOSITS			
	Member call deposits (including withdrawable shares)	296,071,710	274,738,709
	Negotitable certificates of deposit	98,064,189	9,438,711
	Term deposits	313,736,390	260,891,807
	Member retirement savings account deposits	-	17,776,936
	Accrued interest	2,871,976	1,958,919
		710,744,265	**564,805,082**
	Amount of deposits expected to be settled more than 12 months after the reporting date	32,541,096	24,016,884
	Concentration of Deposits		
	The following groups represent concentrations of deposits in excess of 10% of total liabilities:		
	Qld Government Employees including Police, Fire and Ambulance Services		
	% value of deposits	22.46%	27.66%
	$ value of deposits	159,602,055	156,251,751

	2016 $	2015 $
NOTE 21: OTHER PAYABLES		
Annual leave	350,001	352,572
Clearing accounts	1,249,095	533,744
Sundry creditors	811,694	694,324
Deferred income	179,296	187,662
	2,590,086	**1,768,302**

	2016 $	2015 $
NOTE 22: INCOME TAX PAYABLE/(RECEIVABLE)		
Current income tax payable/(receivable)	(241,694)	(213,216)
	(241,694)	**(213,216)**

	2016 $	2015 $
NOTE 23: BORROWINGS		
Overdraft facility	-	66,986
Term loan - secured	-	6,000,000
Loan from Trinity SPE (refer Note 12(b))	15,157,075	9,051,471
	15,157,075	**15,118,457**
Amount of borrowings expected to be settled more than 12 months after the reporting date	15,157,075	9,051,471

The term loan is secured by an equitable mortgage over all assets of QBANK (refer Note 28).
The overdraft facility is secured by a term deposit held with Indue Ltd (refer Note 28).

	2016 $	2015 $
NOTE 24: PROVISIONS		
Provision for long service leave	482,307	505,583
Provision for Directors retirement benefits	30,838	67,929
	513,145	**573,512**

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

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

NOTE 25: TIER 1 REDEEMABLE PREFERENCE SHARES

	2016 $	2015 $
Tier 1 redeemable preference share	3,000,000	3,000,000
Tier 1 debt raising discount	(70,140)	(70,140)
	2,929,860	**2,929,860**

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

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

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

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

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

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

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

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

A holder has no right to redemption of the instruments.

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

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

NOTE 26: RESERVES

(a) Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets.

(b) Reserve for Credit Losses

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

(c) Cashflow Hedge Reserve

The cashflow hedge reserve records the changes in fair value of the interest rate swap to the extent that the hedge was effective.

(d) Redeemed preference share capital account

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

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

NOTE 27: COMMITMENTS

		2016 $	2015 $
(a)	**Future capital commitments**		
	Commitments for the completion of IT projects which have not been recognised as liabilities are payable as follows:		
	No longer than 1 year	63,250	27,860
	Longer than 1 year and not longer than 5 years	-	-
	Longer than 5 years	-	-
		63,250	**27,860**
(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	16,768,798	6,454,009
	Undrawn overdraft, line of credit and credit cards	33,489,101	33,243,275
	Amounts available for redraw	44,932,262	39,569,876
		95,190,161	**79,267,160**

NOTE 28: BORROWING FACILITIES

	Approved Facility $	Current Borrowing $	Net Available $
The group has a gross borrowing facility as follows:			
2016			
Stand by facility - CUSCAL Ltd	-	-	-
Overdraft facility - Indue Ltd	1,000,000	-	1,000,000
Term Loan - CUSCAL Ltd	-	-	-
	1,000,000	**-**	**1,000,000**
2015			
Stand by facility - CUSCAL Ltd	5,000,000	-	5,000,000
Overdraft facility - Indue Ltd	1,000,000	66,986	933,014
Term Loan - CUSCAL Ltd	20,000,000	6,000,000	14,000,000
	26,000,000	**6,066,986**	**19,933,014**

The standby facility and term loan with CUSCAL Ltd are secured by an equitable mortgage over all assets of QBANK.
There are no restrictions on withdrawal of funds in relation to standby or overdraft facilities.
The overdraft with Indue Ltd is secured by a term deposit held with Indue Ltd.

NOTE 29: CONTINGENT LIABILITIES

(a) Credit union financial support system

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

An Industry Support Contract made on 30 September 2009 between CUSCAL Ltd, CUFSS and participating credit unions required QBANK to execute an equitable charge in favour of CUSCAL Ltd. The charge is a fixed and floating charge over the assets and undertakings of QBANK, and secures any advances that may be made to QBANK under the scheme.

The balance of the debt at 30 June 2016 was Nil (2015: Nil).

(b) Guarantees

QBANK has provided guarantees on behalf of members. The maximum liability of the guarantees is limited to $68,121 (2015: $68,121). As at 30 June 2016, QPCU Limited is unaware of any claim in relation to these guarantees.

NOTE 30: EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

Subsequent to year end, a dividend for the September 2016 quarter amounting to $31,494 on the 30,000 Tier 1 redeemable preference shares has been approved by the Board. These Tier 1 shares intend to be repaid in December 2016, subject to shareholder approval.

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

NOTE 31: CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

		2016 $	2015 $
	The following is a summary of financial instruments by class.		
(a)	**Financial assets**		
	(i) Measured at amortised cost		
	Cash and cash equivalents	28,433,896	13,768,210
	Other receivables	1,419,618	1,422,253
	Loans and advances	635,866,424	538,892,901
	Loans and advances – securitised loans	15,157,075	9,051,471
	Financial assets at amortised cost	103,636,918	71,891,281
		784,513,931	**635,026,116**
	(ii) Measured at fair value		
	Financial assets at fair value through other comprehensive income	2,376,920	2,294,120
		2,376,920	**2,294,120**
(b)	**Financial liabilities**		
	(i) Measured at amortised cost		
	Deposits	710,744,265	564,805,082
	Borrowings	15,157,075	15,118,457
	Other payables	2,590,086	1,768,302
		728,491,426	**581,691,841**
	(ii) Measured at fair value		
	Interest rate swaps	211,341	232,111
		211,341	**232,111**

NOTE 32: RISK MANAGEMENT POLICY AND OBJECTIVES

Introduction

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

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

- Strategic risk management
- Interest rate risk management
- Capital risk management
- Liquidity risk management
- Credit risk management
- Operations risk management including information management and security.

The main elements of risk governance are as follows:

(i) Board

This is the primary governing body and approves the level of risk to which QBANK is exposed and the framework for identifying, assessing, mitigating and reporting of risk.

(ii) Risk and Compliance Committee

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

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

(iii) Chief Risk Officer

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

(iv) Audit Committee

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

(v) Internal Auditor

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

(vi) Asset and Liability Committee (ALCO) - Market Risk

This committee meets at least monthly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate risk. The scrutiny of market risk reports is intended to prevent any material exposure.

QBANK has undertaken the following strategies to minimise the risks arising from business operations.

A. Interest Rate Risk and Derivatives Strategy and Policy

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

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and other volatilities will have an adverse effect on QBANK's financial condition or results. QBANK is not exposed to currency risk or other significant price risk. QBANK does not trade in the financial instruments it holds on its books. QBANK is exposed to interest rate risk arising from changes in market interest rates.

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

(i) Interest rate risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to changes in interest rates. Most ADIs are exposed to interest rate risk within their Treasury operations. QBANK's exposure to interest rate risk is measured and monitored using interest rate sensitivity, "Value at Risk" and "Earnings at Risk"models. There has been no material change to QBANK's exposure to market risk or the way QBANK manages and measures interest rate risk in the reporting period.

The policy of QBANK is to maintain "Value at Risk" and interest rate sensitivity below its policy limit. These exposures are measured bi-monthly to identify any large exposures to interest rate movements and to rectify the exposure through corrective action either by targeting selected deposit or lending products, varying maturities of investments or borrowings, or utilising derivatives. The policy of QBANK allows the use of derivative transactions to match interest rate risks. QBANK's exposure to interest rate risk is set out in Note 34 which details the contractual interest change profile.

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

NOTE 32: RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

Based on calculations as at 30 June 2016, the change in value of interest bearing assets and interest bearing liabilities for a 1% (2015: 1%) movement in interest rates would be $45,000 (2015: $109,600). In doing the calculation the assumptions applied were that:

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

The interest rate sensitivity is not representative of the risk inherent in financial instruments during the financial year due to:

1. The acquisition of assets and liabilities of QBANK.
2. The changes in asset mix of fixed rate loans, investments, longer term deposits and borrowings.

(ii) Price risk

The shares in Indue Limited and SSP Limited are held in relation to accessing services for QBANK. These shares are not publicly traded. QBANK carries these at fair value. Owner occupied property and investment property are carried at fair value also Fluctuations in value are recognised. QBANK is exposed to price risk on the value of these assets.

B. Credit Risk

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

Credit risk – loans and advances

The maximum credit risk exposure in relation to loans is discussed in Note 35(a). Concentrations are discussed below and in Note 35(b).

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

QBANK has established policies over the:

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

A regular review of compliance is conducted as part of the internal audit scope.

(i) Past due and impaired loans

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

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

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

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

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

NOTE 32: RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

A provision for impairment is established on all past due loans after a specified period of repayment default where it is probable that some of the asset will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including changes in counterparty's industry and technological developments, as well as identified structural weaknesses or deterioration in cash flows. Details of past due and impaired balances and provisions for impairment of loans and advances to members are discussed in Note 13.

(ii) Collateral securing loans

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

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 13(i) outlines the nature and extent of the security held against the loans as at the end of the reporting period.

It is the policy of QBANK to allow members with a secured loan or advance reasonable assistance and opportunity to rectify a breach prior to recovery procedures being initiated. Details of assets acquired from loan recovery and their disposal are shown in Note 13(d).

(iii) Concentration risk – individuals

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

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

The aggregate value of large exposures on loans and advances to members are set out in Note 35(b). 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, which incorporates comprehensive LVR analysis, twice per year.

(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. The details of the geographical and industry concentrations are set out in Note 35.

Credit risk – liquid investments

Credit risk in relation to liquid investments is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in QBANK incurring a financial loss. This usually occurs when counterparties fail to settle their obligations owing to QBANK.

(i) Concentration of credit risk

The credit policy is that investments are only made to institutions that are creditworthy. Directors have established policies that a maximum of 25% can be invested in any one financial institution at a time. The Board policy for liquid investments allows only investment with unrated investments capped at 25% of total portfolio. There are policy limits for investment grade and individual counterparty limits.

The risk of losses from liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one entity. Also, the relative size of QBANK compared to the industry is relatively low such that the risk of loss is reduced.

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

(ii) External credit assessment for institutional investments

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

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

	2016	2015
	$ Carrying value	$ Carrying value
Indue (unrated)	8,892,000	8,892,000
ADI's – rated A and above*	28,598,307	25,140,994
ADI's – rated A– to BBB*	66,146,611	37,858,287
(*Standard and Poor's)	103,636,918	71,891,281

NOTE 32: RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

C. Liquidity risk

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

QBANK manages liquidity risk by:

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

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

QBANK is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the Australian Prudential Regulation Authority (APRA) Prudential Standards. QBANK's policy is to maintain at least 13% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level management and the Board are to address the matter and ensure that liquid funds are obtained from new deposits and the borrowing facilities available. Note 28 describes the borrowing facilities as at the end of the reporting period.

The maturity profile of financial liabilities based on the contractual repayment terms is set out in Note 33.

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

	2016	2015
	$	$
Liquid funds to total adjusted liabilities:		
- As at 30 June	17.36%	14.44%
- Average for the year	16.62%	14.57%
- Minimum for the year	13.89%	13.41%
Liquid funds to total member deposits:		
- As at 30 June	18.58%	15.15%

D. Operational risk

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

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

Systems of internal control are enhanced through:

- The segregation of duties between employees and functions, including approval and processing duties;
- Documentation of the policies and procedures, employee position descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- Implementation of whistle blowing policies and KPIs to promote a compliance culture and awareness of duty to report exceptions by staff;
- Education of members to review their account statements and report exceptions to QBANK promptly;
- Effective dispute resolution procedures to respond to member complaints;
- Effective insurance arrangements to reduce the impact of losses; and
- Contingency plans for dealing with loss of functionality of system or premises or staff.

(i) Fraud

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

(ii) IT systems

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

NOTE 32: RISK MANAGEMENT POLICY AND OBJECTIVES (cont)

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

E. Capital management

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

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

QBANK's Tier 1 capital includes asset revaluation and general reserves (except reserve for credit losses) and retained profits, at 30 June 2015 it included preference share capital also. The preference shares issued were approved by APRA and qualified as additional Tier 1 capital. At 30 June 2016 0% of the value of these preference shares (2015: 70%) was recognised as Tier 1 capital.

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

Capital in QBANK is made up as follows:

	2016 $	2015 $
Tier 1 Capital		
Tier 1 redeemable preference shares	-	1,800,000
Retained earnings	66,010,478	62,238,060
Asset revaluation reserve	3,798,166	5,479,465
General reserve	337,760	329,686
Cash flow hedge reserve	(147,939)	(162,478)
Less prescribed deductions	(3,477,247)	(3,033,204)
Net Tier 1 Capital	**66,521,218**	**66,651,529**
Tier 2 Capital		
Reserve for credit losses	1,569,476	1,316,955
Net Tier 2 Capital	**1,569,476**	**1,316,955**
Total Capital	**68,090,694**	**67,968,484**

QBANK is required to maintain a minimum capital level of 8% (2015: 8%) of risk weighted assets at any given time in accordance with APRA Prudential Standards. QBANK has complied with all externally imposed capital requirements throughout the period.

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

2016	2015	2014	2013	2012
18.56%	21.93%	21.89%	20.48%	19.56%

QBANK's objective is to maintain sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally imposed capital ratios. To manage QBANK's capital, QBANK reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board if the capital falls below 18% (2015: 18%), and the regulator if the capital ratio falls below 14% (2015: 14%). Further, a 3 year projection of capital levels is prepared annually to address results of operations, strategic decisions or trends that may impact on the capital level.

NOTE 33: MATURITY PROFILE OF FINANCIAL LIABILITIES

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.

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

	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Total cash flows $	Carrying amount $
2016							
Financial Liabilities							
Deposits	369,667,850	117,056,113	195,946,392	35,133,847	-	717,804,202	710,744,265
Borrowings	112,055	224,110	1,008,496	5,348,592	19,263,175	25,956,428	15,157,075
Other payables	2,590,086	-	-	-	-	2,590,086	2,590,086
Total Financial Liabilities	**372,369,991**	**117,280,223**	**196,954,888**	**40,482,439**	**19,263,175**	**746,350,716**	**728,491,426**
Off-Balance Sheet Items							
Undrawn Commitments - Note 27(b) & 29(b)	95,258,282	-	-	-	-	95,258,282	-
Interest Rate Swaps	10,088	20,175	90,789	168,460	-	289,512	211,341
Total Off-Balance Sheet Instruments	**95,268,370**	**20,175**	**90,789**	**168,460**	**-**	**95,547,794**	**211,341**

	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Total cash flows $	Carrying amount $
2015							
Financial Liabilities							
Deposits	342,689,331	72,670,519	128,610,547	26,048,085	-	570,018,482	564,805,082
Borrowings	3,153,254	3,158,360	649,243	3,462,631	11,361,362	21,784,850	15,118,457
Other payables	1,768,302	-	-	-	-	1,768,302	1,768,302
Total Financial Liabilities	**347,610,887**	**75,828,879**	**129,259,790**	**29,510,716**	**11,361,362**	**593,571,634**	**581,691,841**
Off-Balance Sheet Items							
Undrawn Commitments - Note 27(b) & 29(b)	79,335,281	-	-	-	-	79,335,281	-
Interest Rate Swaps	9,600	19,200	86,400	162,542	-	277,742	232,111
Total Off-Balance Sheet Instruments	**79,344,881**	**19,200**	**86,400**	**162,542**	**-**	**79,613,023**	**232,111**

NOTE 34: INTEREST RATE RISK

	Floating Interest Rate	Fixed Interest Rate Maturing			Non Interest Sensitive	Total	Effective Interest Rate
		Within 1 Year	1 to 5 Years	Over 5 Years			
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.							
2016							
Financial Assets							
Cash and cash equivalents	28,285,254	-	-	-	148,642	28,433,896	1.87%
Other receivables	-	-	-	-	1,419,618	1,419,618	
Financial assets at amortised cost	-	78,051,257	25,585,661	-	-	103,636,918	2.59%
Financial assets at fair value through other comprehensive income	-	-	-	-	2,396,920	2,396,920	
Loans and advances	481,488,093	33,220,087	136,315,319	-	-	651,023,499	4.84%
Total Financial Assets	**509,773,347**	**111,271,344**	**161,900,980**	**-**	**3,965,180**	**786,910,851**	
Financial Liabilities							
Deposits	298,943,686	379,259,483	32,541,096	-	-	710,744,265	2.30%
Borrowings	15,157,075	-	-	-	-	15,157,075	4.28%
Other payables	-	-	-	-	2,590,086	2,590,086	
Total Financial Liabilities	**314,100,761**	**379,259,483**	**32,541,096**	**-**	**2,590,086**	**728,491,426**	
Off-Balance Sheet							
Interest rate swaps	11,000,000	(6,000,000)	(5,000,000)	-	-	-	1.00%
Total Off-Balance Sheet	**11,000,000**	**(6,000,000)**	**(5,000,000)**	**-**	**-**	**-**	

2015							
Financial Assets							
Cash and cash equivalents	13,661,673	-	-	-	106,537	13,768,210	1.80%
Other receivables	-	-	-	-	1,422,253	1,422,253	
Financial assets at amortised cost	-	52,269,027	19,622,254	-	-	71,891,281	2.92%
Financial assets at fair value through other comprehensive income	-	-	-	-	2,294,120	2,294,120	
Loans and advances	406,549,888	45,085,725	96,308,759	-	-	547,944,372	5.29%
Total Financial Assets	**420,211,561**	**97,354,752**	**115,931,013**	**-**	**3,822,910**	**637,320,236**	
Financial Liabilities							
Deposits	294,474,564	246,313,634	24,016,884	-	-	564,805,082	2.71%
Borrowings	9,118,457	6,000,000	-	-	-	15,118,457	3.86%
Other payables	-	-	-	-	1,768,302	1,768,302	
Total Financial Liabilities	**303,593,021**	**252,313,634**	**24,016,884**	**-**	**1,768,302**	**581,691,841**	
Off-Balance Sheet							
Interest rate swaps	11,000,000	-	(11,000,000)	-	-	-	0.46%
Total Off-Balance Sheet	**11,000,000**	**-**	**(11,000,000)**	**-**	**-**	**-**	

NOTE 35: CREDIT RISK

(a) Maximum Credit Risk Exposure

QBANK's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position, except loans where the maximum credit risk exposure is $652,321,757 (2015: $545,189,098).

In relation to loans, the maximum credit exposure is the value on the Statement of Financial Position plus the undrawn loan commitments. Details of undrawn loan commitments are shown in Note 27.

(b) Concentrations of Credit Risk

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

	Maximum Credit Risk Exposure			
	% of Total Loans		$	
	2016	2015	2016	2015
Geographical Area				
Brisbane	48.12%	47.30%	313,305,550	259,312,201
Queensland - other than Brisbane	46.34%	47.56%	301,763,644	260,713,816
Industry				
Qld Government employees	59.70%	57.95%	388,719,377	317,715,399

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

NOTE 36: FAIR VALUE MEASUREMENT

(i) Fair Value Hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly quoted market prices in active markets for similar instruments;
  - quoted market prices in active markets for similar instruments
  - quoted prices for identical or similar instruments in markets that are considered less than active; or
  - other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

(ii) Fair Value Estimates

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

(a) Cash and cash equivalents and other receivables

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

(b) Investment securities

The fair value of financial assets at fair value through other comprehensive income that are not traded in an active market is determined using a valuation technique. QBANK uses its judgement to select a method and make assumptions that are mainly based on market conditions existing at the end of the reporting period.

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

NOTE 36: FAIR VALUE MEASUREMENT (cont)

(c) Loans and advances

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

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

(d) Short term borrowings

The carrying value of short term borrowings approximate their fair value as they are short term in nature and reprice frequently.

(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 at 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.

(f) Subordinated debt

The carrying value of subordinated debt approximates its fair value as it reprices quarterly.

(g) Derivatives

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

(h) Owner occupied property

Refer to Note 15(c) for fair value measurement.

(i) Investment properties

Refer to Note 16 for fair value measurement.

(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
	$	$	$	$
2016				
Financial assets at fair value through other comprehensive income	-	-	2,396,920	2,396,920
Derivative liabilities held for risk management	-	(211,341)	-	(211,341)
2015				
Financial assets at fair value through other comprehensive income	-	-	2,294,120	2,294,120
Derivative liabilities held for risk management	-	(232,111)	-	(232,111)

(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
	$	$	$	$	$
2016					
Financial assets					
Loans and advances	-	659,707,152	-	659,707,152	651,023,499
Financial liabilities					
Deposits	-	712,939,371	-	712,939,371	710,744,265
2015					
Financial assets					
Loans and advances	-	554,232,079	-	554,232,079	547,944,372
Financial liabilities					
Deposits	-	566,167,795	-	566,167,795	564,805,082

NOTE 36: FAIR VALUE MEASUREMENT (cont)

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

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

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

(vi) Owner occupied property and investment properties

The fair value measurement for the owner occupied property and 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 2016	Range of Inputs 2015	Relationship between unobservable inputs and fair value
Buildings (Property, plant and equipment)	Income approach based on estimated rental value of the property. Market rentals, outgoings and capitalisation rates are estimated by an external valuer based on comparable transactions and industry data.	Market Gross Rent ($/sqm) Outgoings ($/sqm) Capitalisation Rate	$450 to $472 (weighted average $451) $140 to $266 (weighted average $146) 9.00%	$450 to $472 (weighted average $451) $140 to $266 (weighted average $146) 9.00%	The higher the outgoings and capitalisation rate, the lower the fair value. The higher the gross rent, the higher the fair value.
Investment properties	Income approach based on estimated rental value of the property. Market rentals, outgoings and capitalisation rates are estimated by an external valuer based on comparable transactions and industry data.	Market Gross Rent ($/sqm) Outgoings ($/sqm) Capitalisation Rate	$400 to $520 (weighted average $491) $170 to $266 (weighted average $206) 8.00% to 9.25% (weighted average 8.31%)	$400 to $520 (weighted average $482) $170 to $266 (weighted average $204) 8.00% to 9.25% (weighted average 8.41%)	The higher the outgoings and capitalisation rate, the lower the fair value. The higher the gross rent, the higher the fair value.
	Direct comparison approach based on estimated sale value of the property. Adopted sale rates are estimated by an external valuer based on comparable transactions and industry data.	Sale Rate ($/sqm)	$4,600 to $5,100 (weighted average $4,794)	$4,600 to $5,100 (weighted average $4,794)	The higher the sale rate, the higher the fair value.

		2016 $	2015 $
NOTE 37: STATEMENT OF CASH FLOWS			
(a)	**Reconciliations of cash**		
	For the purposes of the statement of cash flows, cash includes cash on hand and 'at 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:		
	Cash and cash equivalents	28,433,896	13,768,210
		28,433,896	**13,768,210**
(b)	**Cash flows presented on a net basis**		
	Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:		
	(a) customer deposits in and withdrawals from savings, money market and other deposit accounts;		
	(b) sales and purchases of dealing 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.		
(c)	**Reconciliation of cash flow from operations with profit after income tax**		
	Profit after income tax	**2,462,517**	**1,868,612**
	Non-cash flows in profit after income tax:		
	Amortisation	402,042	313,815
	Depreciation	553,977	571,206
	Provision for loan impairment	244,748	164,860
	Loss on sale of property, plant and equipment	2,410	22,710
	(Gain)/Loss on sale of investment properties	(1,049,740)	-
	Revaluation decrement for investment properties	-	1,182,380
	Change in assets and liabilities:		
	(Increase)/Decrease in other receivables	2,635	27,399
	(Increase)/Decrease in prepayments	(596,565)	(50,231)
	Increase/(Decrease) in other payables	1,890,494	(179,489)
	Increase/(Decrease) in deferred and income taxes	(176,281)	(848,912)
	Increase/(Decrease) in provisions	(60,367)	(141,646)
	Net movement in financial assets at fair value through other comprehensive income	(102,800)	(1,856,720)
	Net movement in financial assets at amortised cost	(31,745,637)	1,118,624
	Net movement in loans and advances	(103,479,529)	18,737,814
	Proceeds/(payments) – borrowings	38,618	(12,460,048)
	Net movements in deposits	145,026,125	(5,189,531)
	Net cash provided by/(used in) operating activities	**13,412,647**	**3,280,843**

	2016 $	2015 $
NOTE 38: TRANSACTIONS WITH OTHER RELATED PARTIES		
The following transactions occurred with Northpoint Body Corporate (Northpoint Brisbane CTS 7575). QBANK owns 33 of 76 (43.42%) (2015: 35 of 76, 46.05%) strata titled lots of Northpoint Body Corporate, and have 7,207 (2015: 8,227) voting entitlements out of 13,227 voting entitlements (54.5%) (2015: 62.2%).		
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. The discount was provided due to the propriety interest that QBANK holds in the Northpoint Body Corporate. All other terms of the loan are provided on a commercial basis similar to comparable offerings provided by other financiers.		
Aggregate value of loans at year end	1,543,149	1,781,352
Interest and other revenue earned on loans	117,461	106,350
Other transactions with related parties		
Deposits are held under the same conditions as normal depositors.		
Total value term and savings deposits at year end	2,085	34,832
Total interest paid on these deposits during the year	74	790

NOTE 39: TRANSFER OF FINANCIAL ASSETS - SECURITISATION

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

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

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

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

	2016 $	2015 $
Carrying amount of transferred assets	**87,826,446**	**-**
Carrying amount of associated liabilities	**91,601,560**	**-**
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred assets	87,826,446	-
Fair value of associated liabilities	91,601,560	-
Net position	**(3,775,114)**	**-**

NOTE 39: TRANSFER OF FINANCIAL ASSETS - SECURITISATION (cont)

(b) Securitised Loans – QPCU Heroes Trust No 1

QBANK has assigned the rights and benefits of a parcel of mortgage secured loans to a securitisation entity, QPCU Heroes Trust No 1. The total assigned mortgage secured loans to the securitisation entity amounted to $87,826,446 as at 30 June 2016 (2015: $Nil).

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

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

(c) **Securitised Loans – Trinity Securitisation**

QBANK has assigned the rights and benefits of a parcel of mortgage secured loans to a securitisation entity, Trinity Mortgage Origination Trust No 1, known as Trinity SPE. The total assigned mortgage secured loans to the securitisation entity amounted to $15,157,075 as at 30 June 2016 (2015: $9,051,471).

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

The assignment of loans does not satisfy the de-recognition criteria prescribed in AASB 139, and accordingly the loans are recognised in the Statement of Financial Position with a corresponding increase of a loan due to the Trinity Special Purpose Entity (SPE) which is classified as borrowings, amounting to $15,157,075 as at 30 June 2016 (2015: $9,051,471).

NOTE40: COMPANY DETAILS

The registered office of the company is:

QPCU Limited
Level 1, 231 North Quay
Brisbane QLD 4000

The principal place of business is:

Level 1
231 North Quay
Brisbane QLD 4000

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 2016 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.

Jillian Steinkamp
Chairman

Ray Brownhill
Vice Chairman

Dated 27th October 2016

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INDEPENDENT AUDITOR'S REPORT

To the members of QPCU Limited

Report on the Financial Report

We have audited the accompanying financial report of QPCU Limited, which comprises the statement of financial position as at 30 June 2016, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of QPCU Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of QPCU Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

BDO Audit Pty Ltd

BDO

C R Jenkins

Director

Brisbane, 27th October 2016

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

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

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

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