Qudos Bank

annual report

2019

60 YEARS of rewarding banking

1959-2019

contents

CHAIR'S

report to members

This year, we're pleased to be celebrating our 60th Anniversary of providing quality banking products and services to our customers. Over the past 60 years, we've grown and evolved in many ways, but what I'm most proud of is that we've always done this whilst keeping our customers at the heart of our business.

As we continue to leverage the power of the digital era, we're striving to offer our customers ease and flexibility in banking (including through our ever-evolving app, online banking, mobile payments, and most recently, real-time payments). However, we will never compromise on your security, ensuring your accounts are protected by the latest fraud technology.

Reviewing the outcomes of The Royal Banking Commission

The past year has been a time of self-reflection for the financial services sector following the findings from the Banking Royal Commission. We are committed to identifying where we can improve our business to better meet the needs of our customers.

The principles underlying each of the recommendations in the Report speak to our values and brand – an uncompromising focus on the best interests of the customer. As customers and owners of our bank, we're accountable to you – and we will continue to ensure we put you first, by providing you value products and services you've come to expect, and to give more back to you in the form of better rates, fairer fees and outstanding service.

We're equally committed to meeting or exceeding the community standards and expectations that apply to banks of any size. In this respect much of the intent and detail of the Final Report has been entrenched in our organisation since its inception in 1959, which gives us confidence that we are on the right track. That said, we commit to work through each recommendation and the legal changes that may flow from them, to ensure we fully meet community expectations.

Governance update

This year, we cemented our commitment to reducing costs to you, and our carbon footprint by changing our constitution to allow us to send AGM & Director Election notices via email; with over 99% of our Members agreeing to receive notices electronically.

With our Annual General Meeting fast approaching, I want to invite you all to take part in our first ever live-streamed meeting. Over the years, we have had many discussions around how best to engage and involve our Members in these meetings, given the ever-increasing geographical spread versus the costs of travelling. In this, our 60th year of operation, with digital banking being the new norm and imperative, I am pleased that we finally have a way to offer every one of our Members the ability to participate. I do hope you take advantage of the opportunity.

Acknowledgements

In a milestone year such as this, it's appropriate to recognise and express our gratitude to three individuals who have made outstanding contributions to the development of our organisation.

This year not only represents the 60th year since Qantas Staff Credit Union was formed - it also represents 50 years of service to Qudos Bank by Gary Halliday. After joining Qantas Staff Co-operative Credit Union in 1969 as an accounts clerk, Gary worked his way up to become General Manager/CEO, a position he held for 18 years. Gary handed the reigns over to Scott King when he retired in 2004 and became a Director of the organisation – a role he still holds to this day.

Scott King joined Qantas Staff Credit Union in 1999 as Deputy General Manager – Finance/CFO before becoming CEO in 2004. Scott recently made the decision to leave Qudos after overseeing an unprecedented period of transformation of our organisation. Over this time, Qantas Staff Credit Union became Qantas Credit Union and then Qudos Bank as it is known today.

David Hailes also retired in 2019, after serving as a Director for over 25 years, including roles as Chairman, Deputy Chairman and Chairman of the Audit Committee.

It's been my great pleasure and honour to serve with these three gentlemen, and on behalf of all Members, I would like to thank them for their respective outstanding contributions to make Qudos Bank what it is today.

I would also like to thank Michael Anastasi, who in addition to fulfilling his role as the Chief Financial Officer of the organisation, is capably and graciously acting as CEO, and Andrew Leithhead who served as Chair of the Board during the year.

Finally, looking to the future, I would like to take this opportunity to welcome Jennifer Dalitz as a Director. Jennifer was appointed to fill the casual vacancy following David's retirement and brings a wealth of experience to the Board in financial services and governance.

Mark Boesen
CHAIR

CHIEF EXECUTIVE OFFICER'S

report to members

2019 has been a year of consolidation for our business. Since parting with technology vendor Infosys we've remained committed to introducing banking solutions to meet our customers' needs now and into the future. Our longstanding partnerships with our core banking and payment providers have allowed us to deliver a number of new services and banking functionality, including our improved Mobile App, the ability for customers to self-serve with Online Banking password reset and the ability to change transfer limits, along with enhanced fraud prevention and security monitoring tools. Before the year is out, we will have also launched mobile and real-time payment solutions to make everyday transactions faster and easier 24/7.

Financial Performance

Despite historically low interest rates and a good portion of the year being influenced by the macroprudential curbs the Australian Prudential and Regulatory Authority (APRA) placed on lending, we have had a tremendous year from a financial viewpoint. In our 60th year we're proud to announce that for the first time in our history we achieved $4 billion in assets.

Our loan portfolio grew 7.0% ($213 million) and our deposit growth reached 7.2% ($242 million). Our assets which reached $4 billion, are up 7.4%, an increase of $277 million. I am pleased to report that we exceeded our pre-tax profit target with a result of $24.93 million for 2019.

A turn in the market

Last year we were faced with the challenge of tighter restrictions on lending, which had greatly impacted the financial industry. These tighter restrictions have since been revised by APRA and have sparked hope for customers with easier access to credit and essentially boosting their borrowing capacity. Although it has increased competition, our number one focus is to continue to provide outstanding value to our customers through products and pricing that continues to beat major banks.

Providing award winning value

We continue to offer the best value products to our customers and are extremely proud with the launch of our Low Cost Home Loan Value Package, successfully taking home a Mozo "Experts Choice Award for 2019" and Canstar's "Outstanding value home lender award for 2019". Our loan products continue to provide significant savings when compared to the Big Four, and our deposit products consistently offer highly competitive returns. Our Term Deposit rates were top of the market for majority of 2019.

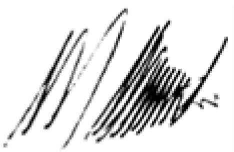
Our vision for the future

As we continue to evolve our products and services and the banking technology that supports them, it's important we do so in consultation with our customers. Earlier this year we undertook a series of customer research groups to help shape the evolution of our brand and market proposition. With a unique heritage in travel and aviation through our Qantas origins, we hope to bring all our customers, both longstanding and new, along for the journey of the Qudos Bank story. Stay tuned – you should see the fruits of the feedback you have given us in the first quarter of 2020.

Happy Birthday!

I'm proud to be celebrating a milestone in our organisation's history, with our 60 Year Anniversary just around the corner. Born in November 1959 as the Qantas Staff Co-Operative Credit Union Limited, a society formed by Qantas employees, much has changed over the years, yet our values and customer focus remain true. Our bank proudly remains 100% customer owned to this day.

To all of you, thank you for your ongoing support and patience. I would also like to extend a well-earned thank you to our people, Management and Directors for their commitment, forward thinking and drive to ensure our business continues to prosper.



Michael Anastasi
CHIEF FINANCIAL OFFICER AND ACTING CHIEF EXECUTIVE OFFICER

directors' report

The Directors present their report together with the consolidated financial statements of the Qudos Mutual Limited ("the Bank") and its subsidiary (together: "The Group") for the year ended 30 June 2019 and the auditor's report thereon.

The Bank is a company registered under the Corporations Act 2001.

Information on Directors

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

Name	Position	Qualifications	Age	Experience & Responsibilities
Mark Boesen	Chair Non–Executive Director	BBus, CPA, FAMI, MAICD	64	- Director since 1992 - Chair, Board (from 26th June 2019) - Chair, Governance & Remuneration Committee (from 26th June 2019) - Member, Constitution Committee - Member, Risk Committee - Member, Technology Committee - Chair, Risk Committee (until 26th June 2019) - Partner S&K Accounting Solutions
Barry Jackson	Deputy Chair, Non-Executive Director	BAv, MAICD	58	- Director since 2015 - Deputy Chair, Board - Member, Audit Committee - Member, Governance & Remuneration Committee - Member, Technology Committee - Member, Australian International Pilots' Association, AIPA - Fellow of the Royal Aeronautical Society, FRAeS
Colin Adams	Non-Executive Director	MAMI, MAICD	70	- Director since 2008 - Chair, Constitution Committee - Member, Risk Committee - Member, Technology Committee - Director of Columbia Securities Pty Ltd - Director of Columbia Superannuation (NSW) Pty Ltd
Sarah Collins	Non-Executive Director	BEc, LLB, MAMI	53	- Director since 2001 - Member, Audit Committee - Counsel – Ashurst Australia
Gary Halliday	Non-Executive Director	FIPA, FFA, FAMI, MAICD, JP	71	- Director since 2004 - Chair, Audit Committee - Member, Governance & Remuneration Committee
Barry Phair	Non-Executive Director	FCPA, FAMI, MAICD	74	- Director since 1990 - Chair, Risk Committee (from 2nd July 2019) - Member, Governance & Remuneration Committee - Member, Risk Committee (until 2nd July 2019)

Name	Position	Qualifications	Age	Experience & Responsibilities
David Hailes RESIGNED 18TH MARCH 2019	Chair, Non–Executive Director	MBA, FAMI, MAICD	76	- Director since 1993 - Chair, Board (until 30th January 2019) - Chair, Executive & Remuneration Committee (until 30th January 2019) - Member, Nominations Committee (until 30th January 2019) - Member, Constitution Committee (until 18th March 2019)
Andrew Leithhead	Non-Executive Director	BCom, GAICD, FFin, JP	59	- Director since 2017 - Member, Risk Committee - Chair, Board (30th January 2019 – 26th June 2019) - Chair, Governance & Remuneration Committee (30th January 2019 – 26th June 2019) - Non-Executive Director, The Anglican Schools Corporation - President, The Australia Racing Drivers' Club - Director, P.T Management Services P/L
Louise Higgins APPOINTED 17TH AUGUST 2018	Non-Executive Director	B.Bus, CIMA, GAICD	40	- Director since 2018 - Chair, Technology Committee - Member, Audit Committee
Jennifer Dalitz APPOINTED 6TH JUNE 2019	Non-Executive Director	BA, MBA, GAICD, FCPA, CA	46	- Director since 2019 - Chief Executive Officer, Women in Banking and Finance Incorporated - Director, Surfing NSW Incorporated

The names of the Company Secretaries in office at the end of the year are:

Name	Qualifications	Age	Experience
Cindy Hansen	LLB (Hons), F Fin, GAICD, MAMI	52	- Company Secretary since 24 April 2007 - General Counsel and Company Secretary, Qudos Mutual Limited
Michael Anastasi	CA, B Comm, GAICD, MAMI	48	- Company Secretary since 25 September 2007 - Chief Financial Officer and Acting Chief Executive Officer, Qudos Mutual Limited

Directors' Meetings

The number of Directors meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors of the Bank during the financial year are:

	Board Meetings		Committee Meetings	
DIRECTOR	HELD	ATTENDED	HELD	ATTENDED
M. P. Boesen	13	13	13	13
B. Jackson	13	13	14	14
C. Adams	13	13	11	11
S. C. Collins	13	13	5	5
G. Halliday	13	13	10	10
A. Leithhead	13	13	14	14
B. G. Phair	13	13	14	14
L. Higgins *	12	12	5	5
J. Dalitz **	2	2	-	-
D. L. Hailes ***	7	6	4	4

All Directors requested, and were granted, leave for meetings they were unable to attend.

* APPOINTED 17TH AUGUST 2018
** APPOINTED 6TH JUNE 2019
*** RESIGNED 18TH MARCH 2019

Principal Activities

The principal activities of the Group during the financial year related to the provision of retail financial and associated services to Members in accordance with our Constitution.

No significant changes to these activities occurred during the year.

Operating Results

Profit before income tax for the 2019 financial year was $24.93 million (2018: $2.05 million), reducing to $17.64 million (2018: $1.40 million) after providing $7.29 million (2018: $0.65 million) for taxation.

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Bank. (2018: Nil)

Review of Operations

Total assets at year end were $4,039.97 million, representing an increase of $276.63 million, or 7.35% over the previous year. Included in total assets are Member loans and advances of $3,259.39 million, having risen by $213.05 million or 7.00%. Deposits increased by $242.96 million, or 7.22% to $3,606.46 million at year end. Total Member's equity at year end was $270.43 million, an increase of $14.48 million, or 5.66%. Continued Member support together with strong lending levels and competitive interest rates offered to depositors and borrowers, along with prudent expenditure controls, enabled the Group to further strengthen its financial position during the year.

Significant Changes in State of Affairs

No significant changes occurred in the state of affairs of the Group during the year that has not otherwise been disclosed in this Report or the consolidated financial statements.

Events Occurring after Balance Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Group in subsequent years.

Indemnification of Directors and Officers

Since the end of the previous financial year, the Bank has not indemnified or made a relevant agreement for indemnifying against a liability for any person who is or has been an officer, Director or auditor of the Group.

Insurance of Directors and Officers

During the financial year, the Group paid an insurance premium of $105,682 (2018: $88,393) in respect of Directors' and Officers' Liability and Company Reimbursement insurance policies for any past, present or future, Director, Secretary or Executive Officer of the Group. The policy does not contain details of the premiums paid in respect of individual Directors or officers. The insurance policy does not cover payments made arising out of claims made against any Directors or officers by reason of any wrongful act in their capacity as Directors or officers.

No insurance cover has been provided for the benefit of the auditors of the Group.

Likely Developments

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

i. The operations of the Group;

ii. The results of those operations; or

iii. The state of affairs of the Group

in the financial years subsequent to this financial year.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 13 and forms part of the Directors' report for financial year ended 30 June 2019.

Rounding

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Rounding instrument 2016/191 dated 1 April 2016. The Bank is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures that are shown in whole dollars.

Public Prudential Disclosures

As an Approved Deposit – taking Institution ("ADI") regulated by the **Australian Prudential Regulation Authority ("APRA")**, the group is required to publicly disclose certain information in respect of:

- Consolidated equity and regulatory capital;
- Risk exposure and assessment; and
- Remuneration disclosures.

The disclosures are to be found on the company's website: qudosbank.com.au/about-us-corporate-information-financial-reports.html.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Mark Boesen
CHAIR

Barry Jackson
DEPUTY CHAIR

SYDNEY
25TH SEPTEMBER 2019

executive group

From left to right:

Antar Chahine, Anthony Moir, Wendy Hadenham, David Bridges, Michael Anastasi, Cindy Hansen, Joff Stevens, Stephen Swannell

board of directors

From left to right:

Jennifer Dalitz, Barry Jackson, Louise Higgins, Mark Boesen, Gary Halliday, Barry Phair, Colin Adams, Sarah Collins, Andrew Leithead

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Qudos Mutual Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Qudos Mutual Limited for the financial year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Martin McGrath

Partner

Sydney

25 September 2019

corporate governance statement

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.

Good corporate governance will support the Bank's vision **"To be THE Bank our customers value most" and purpose "We create mutual value through empowering customers, better products and outstanding service".**

Directors and management are committed to high standards of corporate governance and with this in mind, have articulated and formalised the corporate governance framework within which the Bank operates in a Board Charter.

As an unlisted public company, the Bank is not bound by the Corporate Governance Principles and Recommendations published by the Australian Stock Exchange Corporate Governance Council (ASX Principles), but has regard to the ASX Principles to the extent that the principles are appropriate to the Bank's particular circumstances as a non-listed, mutual, financial institution.

As a customer owned bank, the Bank also has regard to the Business Council of Co-operatives and Mutuals' Co-operative and Mutual Enterprise Governance Principles dated July 2018 (CME Principles). In particular, a principle proposed by the CME Principles in addition to the ASX Principles to "Create, protect and return member value".

Statement of Principles

CREATE, PROTECT AND RETURN MEMBER VALUE

To act on behalf of members to achieve the Bank's agreed purpose by pursuing the sustainable creation, protection and return of value to current and future members.

The Board acknowledges that a core difference between companies with a mutual structure and other corporate forms is that the Bank exists to create, protect and return value to members. This purpose distinguishes the Bank from other investor owned organisations that exist primarily to maximise financial returns to shareholders.

The Bank is also distinguished by its structure; in particular the equal opportunity for members to participate in the Bank's governance — one member, one vote.

In conjunction with Senior Management, the Board has developed and will maintain a clear set of strategic objectives, consistent with the Bank's Constitution, purpose and banking business, to ensure the sustainable creation, protection and return of value for current and future members.

The Board will obtain collaboration and support for the Bank's strategic objectives from its membership via a combination of the following, as appropriate:

- member approval (e.g. changes to the Constitution);
- general surveys (e.g. member satisfaction);
- targeted feedback on key strategic initiatives or product development (e.g. surveys, focus groups, consultation with key stakeholder groups);
- sentiment (e.g. customer reviews/ratings, social media monitoring);
- complaints and compliments;
- communications (e.g. newsletter, website, blogs, messages from the CEO/Chair);
- effectiveness/success measures (e.g. net promoter score, bank valued most, customer retention)

The Board Charter sets out how the Board will monitor, review and report on the Bank's strategic objectives, so that the strategy continues to be aligned with the changing member value proposition over time.

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

To establish and disclose the respective roles and responsibilities of Board and management and how their performance is monitored and evaluated.

The Board Charter outlines the role of the Board and senior management. In governing the Bank, the Directors must act in the best interests of the Bank as a whole.

The Board has the final responsibility for the successful operations of the Bank. In general, it is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Bank. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Bank.

The details of some Board functions are handled through Board Committees. However, the Board as a whole is responsible for determining the extent of powers residing in each Committee and is ultimately responsible for accepting, modifying or rejecting Committee recommendations. Each Committee has its own Charter, which includes its structure, authority and responsibilities.

The Board currently has the following Committees:

Committee	Role
Governance & Remuneration Committee	Facilitates the governance activities of the Board and provides an objective non-executive review of the Bank's remuneration, including the CEO, CFO and Senior Executives.
Audit Committee	Provides an objective non-executive review of the effectiveness of the Bank's financial reporting, internal controls, risk management framework and internal and external audit functions.
Risk Committee	Provides an objective non-executive review, oversight and monitoring of the Bank's risk management policies and processes.
Nominations Committee	Applies the Bank's Fit and Proper Policy to candidates for appointment to the Board; comprises 2 non-Bank members and 1 Board representative.
Technology Committee	Provides guidance to the board in their consideration of technology, strategy, resources and governance to support and enable Qudos Bank's business strategy.
Constitution Committee	Assists the Board to review Qudos Bank's Constitution

It is the role of senior management to manage the Bank in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties. Senior management is responsible for implementing the Bank's strategic objectives and operating within the risk appetite set by the Board and all other aspects of the day-to-day running of the Bank. Management is also responsible for providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities.

The Bank has adopted a Diversity Policy to reflect our approach to diversity within the workplace, which is central to the maintenance of an inclusive work environment and culture that allows all employee's to contribute to their full potential. Diversity refers to encompassing acceptance and respect of the visible and invisible characteristics of an individual which make one individual different from another.

The Bank also has a number of formal policies that support diversity, including policies in relation to recruitment and selection, performance management, a statement of professional practice and a code of conduct.

As at 30 June 2019, the Bank gender diversity split was 59% female and 41% male. The Board was 33% female and 67% male. As we move through to Senior Executive it was 22% female and 78% male and Management was 45% female and 55% male.

The Board considers the evaluation of its own and senior executive performance as fundamental to establishing a culture of performance and accountability and the ongoing development and improvement of its own performance as a critical input to effective governance. As a result, the Board regularly evaluates performance of the Board, Board Committees and Directors. A performance evaluation has taken place in the reporting period in accordance with this process.

Employees, including senior executives are subject to an annual performance evaluation, based on performance targets aligned to overall business goals and the requirements of the position. In the case of the CEO, performance is overseen by the Governance & Remuneration Committee. A performance review of senior management and the Chief Executive Officer has taken place in the reporting period.

STRUCTURE THE BOARD TO ADD VALUE

Have a Board of appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

The Board must also understand its role in relation to member representation and the mechanisms in place to promote accountability to members and the Bank's purpose.

A high performing and effective Board is essential for proper governance. It should be of sufficient size to meet business requirements but not so large as to be unwieldy. Its composition should reflect the appropriate level and form of member representation to realise its purpose over time.

The Board has determined that, consistent with the size of the Bank and its activities, the Board be comprised of 9 Directors, all of whom, including the Chair and the Deputy Chair, are non-executive. The Board has determined not to appoint an Executive Director.

Member resolutions at the 2012 and 2016 AGMs approved reductions in the size of the Board from 11 to 10, and then to 9. The Board can increase the number of Directors to the maximum under the Constitution in future, if necessary to fulfil its obligations.

At the 2018 AGM members approved a new Constitution that included changes to the appointment of Directors. Under the new Constitution Directors can be either elected by members (Member Elected Directors) or appointed by the Board (Board Appointed Directors).

The Board can appoint up to 3 non-executive Directors and 1 Executive Director, provided that at all times there must be a minimum of 4 Member Elected Directors and the majority of Directors must be Member Elected Directors.

The new Constitution includes transitional arrangements to achieve a mix of 6 Member Elected Directors and 3 Board Appointed Directors by the end of 2021.

The overriding principle to which the Board has regard in relation to the structure of the Board is that collectively the Board must have the necessary skills, knowledge and experience to understand the risks of the Bank, including its legal and prudential obligations, and to ensure that the Bank is managed in an appropriate way taking into account these risks. The Bank regularly reviews the need for various skills and experience against the current skills and experience represented on the Board.

Directors must be fit and proper persons as defined in APRA Prudential Standard CPS 520 Fit and Proper. The Board Charter and Fit and Proper Policy set out how the Bank assesses whether or not a person is fit and proper and the Board has established a Nominations Committee to assess the fitness and propriety of all candidates for appointment as a Director. All current Directors have been assessed as being fit and proper, in accordance with the Bank's policy.

- In its Prudential Standard CPS 510 Governance, APRA requires the Board to have a majority of independent and non-executive Directors at all times. In addition, certain positions, such as Chair of the Board and Chair of the Audit Committee, must be held by an independent, non-executive Director.
- The Board Charter sets out how the Bank assesses whether or not a person is independent. The Board has resolved that all Directors are independent, in accordance with the Board Charter. All Directors are currently non-executive.

ACT ETHICALLY AND RESPONSIBLY

A company's reputation is one of its most valuable assets and, if damaged, can be one of the most difficult to restore.

Recent corporate governance failures have given rise to the APRA review into the CBA and the Banking Royal Commission, which have examined what it means to act ethically and responsibly, a bank's social licence to operate and community expectations.

Acting ethically and responsibly goes well beyond mere compliance with legal obligations and involves acting with honesty, integrity and in a manner that is consistent with the reasonable expectations of members and the broader community. It includes being, and being seen to be, a 'good corporate citizen', having the customer at the centre of everything we do and asking 'should we' when making business decisions.

The Board will instill and continually reinforce a culture across the Bank of acting lawfully, ethically and in a socially responsible manner. In making its decisions, the Bank not only complies with its legal obligations, but also considers the reasonable expectations of its stakeholders, including Members and employees. The Bank's policies and procedures promote responsibility, accountability and integrity and the Board has implemented and enforced a strict Directors' and Officers' Code of Conduct.

The Board and Senior Management will create a culture that reflects the Bank's vision, mission and values by:

- driving values and principles and setting the tone from the top;
- ensuring that all employees understand the Bank's values, are rewarded for conduct that demonstrates those values and are held accountable for conduct that does not demonstrate those values;
- encouraging diversity of views, critical attitudes and testing of current practices; and
- recruiting, training and rewarding employees based on our values.

In addition, the Bank has policies and procedures in relation to disclosing and managing actual or potential conflicts of interest that may or might reasonably be thought to exist, and to minimise the risk of related party transactions.

SAFEGUARD INTEGRITY IN CORPORATE REPORTING

Have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

The Bank will ensure that the financial reports present a true and fair view and that its accounting methods comply with all relevant accounting and regulatory requirements, on the basis of a sound system of risk management and internal control, which is operating effectively.

The Board has in place a structure of review and authorisation designed to ensure the truthful and factual presentation of the Bank's financial position. The structure includes: the Board monitoring the performance of the organisation in implementing its strategy and overall operational performance; declarations from the CEO and CFO that, in their opinion, the Bank's financial records have been properly maintained and that financial statements comply with the appropriate accounting standards and give a true and fair view of its financial position and performance and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively; review and consideration of the accounts by the Audit Committee; and a process to ensure the independence and competence of the Bank's internal and external auditors.

MAKE TIMELY AND BALANCED DISCLOSURE

Make timely, transparent and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the value received from ongoing membership and the interests of members and other stakeholders.

As a non-disclosing entity, the Bank is not subject to continuous disclosure obligations. Member shares are not transferable and are redeemed when a member closes all of their accounts with the Bank. However, the Bank is subject to obligations under company and banking law regarding the disclosure of financial and other information.

The Bank will provide members and relevant stakeholders access to relevant information, including:

- Information about member shares;
- Financial and operating results;
- Disclosure reports under APRA Prudential Standards;
- The names of Directors and key executives;
- Information about material and foreseeable risk factors;
- Material issues regarding employees and other stakeholders;
- Remuneration principles; and
- Governance structures and policies, including continuous improvement.

RESPECT THE RIGHTS OF MEMBERS

Provide members appropriate information and facilities to allow them to exercise their rights as shareholders.

The Bank will respect the rights of members as shareholders and facilitate the effective exercise of those rights by:

- giving them ready access to information about the Bank and its governance;
- communicating openly and honestly with them;
- encouraging and facilitating their participation at meetings of members.

The Bank makes information about the company freely and readily available on our website, including:

- Constitution
- annual reports
- prudential disclosures
- notices of meetings and accompanying documents
- member newsletters.

The Bank provides options for members to vote for Directors and to appoint a Proxy to vote at meetings electronically via online banking to encourage participation and allow members to vote ahead of the meeting.

The Bank also provides:

- a secure email facility via our online banking website to allow members to send communications; and
- optional electronic communication channels for members to receive communications.

Electronic communications are formatted to be easily readable on a computer screen and other electronic devices commonly used and include a printer friendly option and/or download option for those members who wish to retain a copy of the communication.

RECOGNISE AND MANAGE RISK

Establish a sound risk management framework and periodically review the effectiveness of that framework.

The Board recognises that good risk management practices can not only help to protect established value, they can assist in identifying opportunities to create member value.

The Board has in place a system of risk oversight and management and internal control to:

- identify, and where possible, quantify the major risks confronting the Bank;
- develop and review policies to monitor, control and where possible, minimise risks within the broader objectives of the Bank; and
- provide oversight and monitoring by the Risk Committee;

appropriate to the Bank's size, business mix and complexity and consistent with its strategic objectives and plan.

The Board and Senior Management lead by example and set the tone from the top on culture to create an environment where every employee has ownership and responsibility for 'doing the right thing' and ensuring 'good outcomes for customers'.

The principles of 'doing the right thing' and ensuring 'good outcomes for customers' are reflected in the Bank's business strategy, business model, risk appetite and business practices.

The Board will foster an environment in which employees understand, respect and fulfil their obligations in order to conduct themselves to the highest standards of professional and personal conduct and will commit adequate resources to compliance and risk management functions, reward compliant behavior and take timely and appropriate action in respect of non-compliant behaviour.

corporate governance statement (continued)

REMUNERATE FAIRLY AND RESPONSIBLY

Pay director remuneration sufficient to attract and retain high quality directors and design executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for members.

Directors are paid fees approved by Members. The Board regularly engages external consultants to review Directors fees as part of our commitment to balancing the need to adequately remunerate Directors with our principles of mutuality.

The Board has adopted remuneration policies that comply with the requirements of APRA Prudential Standard CPS 510 Governance. The policies are designed to encourage behaviour that supports the Bank's long-term financial soundness and risk management framework and creates member value.

The policies aim to attract and maintain appropriately experienced Directors and employees so as to encourage enhanced performance by the Bank and the offering of the highest level of service to Members. There is a clear relationship between performance, risk and remuneration of executive employees.

The Bank publishes its remuneration principles on our corporate website and includes remuneration of Directors and Key Management Personnel in the annual report.

directors' declaration

1. In the opinion of the Directors of Qudos Mutual Limited ("the Group"):

    a. the consolidated financial statements and notes that are contained on pages 25 to 85 are in accordance with the *Corporations Act 2001*, including:

        i. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

        ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

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

    c. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2019.

Signed in accordance with a resolution of the Directors:

Mark Boesen
CHAIR,
DIRECTOR

Barry Jackson
DEPUTY CHAIR,
DIRECTOR

SYDNEY
25TH SEPTEMBER 2019

KPMG

Independent Auditor's Report

To the members of Qudos Mutual Limited

Opinion

We have audited the ***Financial Report*** of Qudos Mutual Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of Qudos Mutual Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Qudos Mutual Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Chair's Report to Members, Chief Executive Officer's Report to Members, Directors' Report and Corporate Governance Statement.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Martin McGrath

Partner

Sydney

25 September 2019

consolidated statement of profit or loss and other comprehensive income

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $000	2018 $000
Interest revenue	2.a	146,180	141,934
Interest expense	2.b	(78,757)	(75,706)
Net interest income		**67,423**	**66,228**
Other income	2.c	8,399	10,313
Total operating income		**75,822**	**76,541**
Non interest expenses			
Impairment losses on loans and advances	2.d	(712)	(484)
Other expenses	2.e	(50,179)	(74,004)
Profit before income tax		**24,931**	**2,053**
Income tax expense	3	(7,290)	(650)
Profit after income tax		**17,641**	**1,403**
Other comprehensive income			
Items that may be reclassified to profit or loss: Net fair value (loss)/gain on financial assets at FVOCI, net of tax		1,568	(308)
Net movement on cash flow hedge, net of tax		(952)	69
Total comprehensive income		**18,257**	**1,164**

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements set out on pages 29 to 85.

consolidated statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2019

	Note	Capital Reserve $000	General Reserve for Credit Losses $000	Cash Flow Hedge Reserve $000	Financial Assets at FVOCI Reserve $000	Retained Profits $000	Total $000
Total as at 1 July 2017		**376**	**8,106**	**(335)**	**5,829**	**240,810**	**254,786**
Profit for the year	19	-	-	-	-	1,403	1,403
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Net fair value gain on financial assets at FVOCI, net of tax		-	-	-	(308)	-	(308)
Net movement on cash flow hedge, net of tax		-	-	69	-	-	69
Transfers to/(from) Reserves	18	12	438	-	-	(450)	-
Total as at 30 June 2018		**388**	**8,543**	**(266)**	**5,521**	**241,763**	**255,949**
Profit for the year	19	-	-	-	-	17,641	17,641
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Net fair value gain on financial assets at FVOCI, net of tax		-	-	-	1,568	-	1,568
Net movement on cash flow hedge, net of tax		-	-	(952)		-	(952)
Change on adoption of AASB 9			-			(4,900)	(4,900)
Change on adoption of AASB 15						1,120	1,120
Transfers to/(from) Reserves	18	(388)	(6,747)	-	-	7,135	-
Total as at 30 June 2019		-	**1,796**	**(1,218)**	**7,089**	**262,759**	**270,426**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements set out on pages 29 to 85.

consolidated statement of financial position

AS AT 30 JUNE 2019

	Note	2019 $000	2018 $000
ASSETS			
Cash and cash equivalents	4	79,354	93,652
Receivables	5	3,376	3,957
Receivables due from other financial institutions	6	94,321	44,765
Loans and advances to Members	7	3,259,385	3,046,336
Financial Assets at FVOCI	9	587,734	555,618
Derivative Asset	28	-	4
Plant and equipment	10.a	4,749	6,438
Intangibles	10.b	415	258
Prepayments and Other Assets	11	7,485	5,420
Current Tax Asset	16	1,087	-
Deferred Tax Assets	12	2,068	6,895
TOTAL ASSETS		**4,039,974**	**3,763,343**
LIABILITIES			
Payables to other Financial Institutions	13	143,526	116,598
Deposits	14	3,606,457	3,363,502
Creditor accruals and settlement accounts	15	13,698	21,720
Derivative liability	28	1,740	384
Current tax liability	16	-	1,504
Provisions	17	4,127	3,686
TOTAL LIABILITIES		**3,769,548**	**3,507,394**
NET ASSETS		**270,426**	**255,949**
MEMBERS' EQUITY			
Reserves	18	7,667	14,186
Retained earnings	19	262,759	241,763
TOTAL MEMBERS' EQUITY		**270,426**	**255,949**

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements set out on pages 29 to 85.

consolidated statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $000	2018 $000
OPERATING ACTIVITIES			
Interest received		147,762	142,093
Fees and commissions received		8,183	10,363
Dividends received		291	291
Interest paid		(79,678)	(76,982)
Cash paid to suppliers and employees		(49,837)	(52,934)
Income taxes paid		(2,964)	(5,546)
Net increase in member loans		(220,749)	(5,546)
Net increase in deposits and shares		262,709	240,038
Net decrease in receivables from other financial institutions		(79,433)	(118,009)
Net cash used in operating activities	**27b**	**(13,716)**	**(1,562)**
INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment		158	111
Purchase of property, plant and equipment		(407)	(1,031)
Purchase of investments		-	-
Purchase of intangibles and work in progress		(333)	(5,115)
Net cash used in investing activities		**(582)**	**(6,035)**
Total net cash decrease		**(14,298)**	**(7,597)**
Cash at beginning of year		93,652	101,249
Cash and cash equivalents at end of year	**27a**	**79,354**	**93,652**

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements set out on pages 29 to 85.

notes to the consolidated financial statements

1. STATEMENT OF ACCOUNTING POLICIES

Qudos Mutual Limited (the "Company" or the "Bank") is a company domiciled in Australia. The address of the Company's registered office is 191 O'Riordan St, Mascot, NSW 2022. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and the MEAA Funding Trust (the "Trust"), a Special Purpose Vehicle deemed under the Accounting Standards to be controlled by the Bank, for the year ended the 30 June 2019 (together referred to as the "Group"). The Group is a for-profit entity and primarily is involved in the provision of financial products, services and associated activities to Members.

A. BASIS OF PREPARATION

(i) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 25th September 2019.

(ii) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative instruments and financial assets which are classified as fair value through other comprehensive income (FVOCI).

(iii) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Group is of a kind referred to in ASIC Rounding instrument 2016/191 dated 1st April 2016 and in accordance with the Legislative Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(iv) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes to the Financial Statements:

1(YB) - Revenue from contracts with customers

1(I) - Financial Instruments, including loan impairment

21 - Fair Value of financial assets and liabilities

1(W) - Intangibles Computer Software Costs

notes to the consolidated financial statements (continued)

B. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

C. LOANS AND ADVANCES TO MEMBERS

(i) Basis of inclusion

The Group recognises loans and advances on the date that they are originated.

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost using the effective interest method net of any credit impairment. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans using the effective interest method.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Group at balance date, less any allowance or provision for impairment. Refer to note 1(l) for details on the approach to measure the expected credit losses on financial assets accounted for as amortised cost.

(ii) Interest earned

Term Loans - The loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a Member's account on the last day of each month.

Credit Cards – For interest free credit cards, interest will be charged only where the relevant transactions do not qualify for interest free status in accordance with the terms and conditions of the facility.

(iii) Loan origination fees and transaction costs

Loan establishment fees and associated transaction costs are initially deferred as part of the loan balance, and are brought to account as either a net expense or net income over the expected life of the loan. The amounts brought to account are included as part of interest revenue or expense as appropriate.

D. PLANT AND EQUIPMENT

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Plant and equipment with the exception of freehold land, are depreciated on a straight-line basis, so as to write off the net cost of each asset over its expected useful life to the Group. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives at the balance date are as follows:

Leasehold Improvements – 3 to 10 years.

Plant and Equipment – 2.5 to 7 years.

E. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

F. CAPITAL WORK IN PROGRESS

Research costs are expensed as incurred. Development expenditures on individual projects are recognised in capital work in progress when the Group can demonstrate:

- The technical feasibility of completing the capital project so that it will be available for use or sale;
- Its intention to complete and its ability to use the capital project;
- How the capital project will generate future economic benefits;
- The availability of resources to complete the capital project; and
- The ability to measure reliably the expenditure during the development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated depreciation/amortisation and accumulated impairment losses.

Depreciation/amortisation of the asset begins when development is complete and the asset is available for use and occurs over the period of expected future benefit.

G. RECEIVABLES FROM OTHER FINANCIAL INSTITUTIONS

Receivables from other financial institutions include term deposits and settlement account balances due from other banks. They are recognised and accounted for as financial assets classified as amortised cost in accordance with Note 1(I).

Certificate of deposits and floating rate notes are recognised and accounted for as financial assets classified as Fair Value through OCI (FVOCI) in accordance with Note 1(I).

Interest on receivables due from other financial institutions is recognised on an effective yield basis.

H. FEES AND COMMISSIONS

The majority of these fees are made up of Visa interchange fees and optional issuer fees. These fees are treated as income on a cash receipt basis.

I. FINANCIAL INSTRUMENTS

Recognition and measurement

The group initially recognises loans and advances, deposits, debt securities issued and subordinate liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instruments.

POLICY APPLICABLE AFTER 1 JULY 2018

Amortised cost

Financial assets are classified at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate. Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired.

Fair value through other comprehensive income

Financial assets including debt instruments are classified at FVOCI when they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI. All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

Fair value through profit or loss

For financial assets in this category, all realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Debt instruments at FVOCI

Debt instruments at FVOCI includes changes in the fair value of investments in debt instruments. The changes recognised in reserve are transferred to profit or loss when the asset is derecognised or impaired.

Equity instruments at FVOCI

On removal of the AFS category management have made an irrevocable election to measure the unlisted shares at FVOCI. These equity securities represent investments that the Bank intends to hold for the long term for strategic purposes. As permitted by AASB 9 Financial Instruments, the Group has designated these investments at the date of initial application as measured at FVOCI.

POLICY APPLICABLE BEFORE 1 JULY 2018

Held to maturity investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has a positive intention and ability to hold to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Held-to-maturity financial assets comprise certificate of deposits.

Available for sale assets

This category includes non-derivative financial assets and investments in equity instruments. Available-for-sale financial assets are recognised on acquisition at cost on a trade date basis and thereafter at fair value unless fair value is unable to be determined reliably, in which case they are carried at cost. Changes in the fair value of available-for-sale assets are reported in the “available-for-sale reserve” net of applicable income taxes until the investments are sold, collected or otherwise disposed of, or until such investments are impaired. On disposal the accumulated change in fair value is transferred to the Consolidated Statement of Comprehensive Income.

Business model assessment

The Bank will make an assessment of the objective of the business model at a portfolio level as this best reflects the way the business is managed and information is prepared and reported. The information includes:

- Stated policies and objectives for the portfolio and the operation of those policies in practice, strategy on earning contractual interest revenue, the interest rate profile, matching the duration of financial assets to the duration of financial liabilities that are funding the assets or realising cash flows through the sale of assets;
- How performance of the portfolio is evaluated and reported to the Bank’s management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reason for such sales and expectation of future sales activity (as part of an overall assessment on how the Bank’s objective of managing financial assets is achieved and how cash flows are realised).

Contractual cash flows assessment

In assessing whether the cash flows are SPPI, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impairment of financial assets

AASB 9 Financial Instruments (AASB 9) replaces the AASB 139 Financial Instruments (AASB 139) incurred loss model with an expected loss model. The impairment requirements apply to financial assets measured at amortised cost, FVOCI, amounts receivable from contracts with customers as defined in AASB 15 Revenue from Contracts with Customers, loan commitments and financial guarantee contracts.

The new Accounting Standard requires entities to account for expected credit losses (ECLs) from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

The Bank measures loss allowances at an amount equal to lifetime ECLs except for financial instruments on which credit risk has not increased significantly since their initial recognition, where they are measured as 12-month ECLs.

The Group applies a three-stage approach in measuring ECLs based on changes in the financial assets' underlying credit risk and includes forward looking or macroeconomic conditions:

- **Stage 1:** Where credit risk has not increased significantly since initial recognition or the asset is not credit impaired upon origination, recognise a portion of the lifetime ECLs associated with the probability of default events occurring within the next 12 months.
- **Stage 2:** Where credit risk has increased significantly since initial recognition but not credit impaired (includes exposures that are greater than 30 days past due), recognise lifetime ECLs.
- **Stage 3:** When a financial asset is assessed as credit impaired (includes exposures that are greater than 90 days past due), recognise lifetime ECLs.

Lifetime ECLs are generally determined based on the contractual maturity or behavioural life of the financial asset. When measuring ECLs, the Bank takes into account the probability weighted outcome of cash shortfalls over the expected life of the asset discounted at its current effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group is expected to receive.

Model inputs

The key model inputs used in measuring the ECL include:

- Exposure at default (EAD): The EAD represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration a range of possible exposures including both repayments and future drawdowns of unutilised commitments up to when the exposure is expected to default.
- Probability of default (PD): The calculation of PD is generally performed at a facility level segmented based on product type and shared characteristics that are highly correlated to credit risk. PDs are a function of transition matrices used to determine a point in time PD estimate.
- Loss given default (LGD): The LGD associated with PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios. These factors include collateral, recovery cost, LMI and the structure of the facility.

Forward looking information

Forward looking information used in the measurement of ECLs takes into account probability weighted scenarios and includes macroeconomic variables that influence credit losses such as RBA cash rates, gross domestic product (GDP) data, unemployment rates and changing house prices.

Significant increase in credit risk

The Bank will assess significant increase in credit risk (SICR) for financial assets by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In assessing whether there has been a SICR, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort. The credit risk assessment will be carried out on an individual and collective basis. The Bank considers contractual payments that are 30 days past due or default events (e.g. 90 days past due) as primary indicators of SICR. The determination of SICR also takes into consideration various factors, qualitative and quantitative information and will vary by product and type of financial asset. The main factors considered in making this determination are relative and absolute changes in the probability of default since origination and other criteria such as past due arrears information, hardship and watch-list status.

Write-off

Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs. This assessment is carried out at the individual asset level. Recoveries of amounts previously written-off are included in the impairment of loans and advances line in the Income Statement.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

J. DEPOSITS

(i) Basis for determination

Savings, term investments and retirement savings accounts are recognised at the aggregate amount of money owing to depositors.

(ii) Interest on deposits

At Call

Interest on deposit balances is calculated and accrued on a daily basis at current rates and credited to accounts on a monthly basis.

Term Deposits

Interest on term deposits is calculated and accrued on a daily basis at agreed rates and is paid or credited to accounts in accordance with the terms of the deposit.

Retirement Savings Accounts (RSA)

Interest on Retirement Savings Accounts are calculated and accrued on a daily basis at current rates and credited to Retirement Savings Accounts on a monthly basis.

K. BORROWINGS

The Group initially recognises loans and borrowings on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans and borrowings using the effective interest method.

L. PROVISION FOR EMPLOYEE BENEFITS

The provision for long service leave is based on the present value of the estimated future cash outflows to be made resulting from employees' service up to reporting date, and having regard to the probability that employees as a group will remain employed for the period of time necessary to qualify for long service leave.

Provisions for annual leave represent present obligations resulting from employees' services calculated on undiscounted amounts based on remuneration, wage and salary rates that the Group expects to pay as at reporting date.

Contributions are made by the Group to an employee's superannuation fund and are charged to the profit or loss as incurred.

M. LEASEHOLD ON PREMISES

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

N. INCOME TAX

The income tax expense shown in the profit or loss is based on the operating profit before income tax adjusted for any non-tax deductible or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the Statement of Financial Position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Group will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

O. GOODS AND SERVICES TAX (GST)

As a financial institution, the Group is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable. In addition, general apportionment may be recoverable in some cases.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Consolidated Statement of Financial Position. Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Australian Taxation Office, are classified as operating cash flows.

P. IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Q. PRINCIPLES OF CONSOLIDATION

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the Group are eliminated in full.

R. REDEEMABLE PREFERENCE SHARES

The Bank issues redeemable preference shares to each Member upon joining. Up until 1st April 2010, all Members were required to hold five fully paid preference shares of $2 each in accordance with the constitution of the Bank. These shares are redeemed for their face value of $2 each on leaving the Bank. Subsequent to 1 April 2010, this share capital remains uncalled. The Bank has changed its accounting policy in regards to preference shares, refer to note 1 (YC) below.

S. RECOVERABLE AMOUNT OF NON-CURRENT ASSETS VALUED ON COST BASIS

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the profit or loss in the reporting period in which it occurs. In assessing the recoverable amounts of non-current assets relevant cash flows have been discounted to their present value.

T. OTHER TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (P)).

U. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, short term bills and call deposits with maturity equal to or less than 3 months. Bank overdrafts that are repayable on demand and form an integral part of the Group cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

V. EXPENSES – OPERATING LEASE PAYMENTS

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit or loss as an integral part of the total lease expense and spread over the lease term.

W. INTANGIBLES – COMPUTER SOFTWARE COSTS

The Group capitalises computer software costs and recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and will lead to future economic benefits that the Group controls. Capitalised software assets are carried at cost less amortisation and any impairment losses. The Group amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but usually not exceeding 5 years. Any impairment loss is recognised under operating expenditure in the profit or loss when incurred.

X. TRADE AND OTHER PAYABLES

Trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 60-day terms.

Y. CHANGES TO ACCOUNTING POLICIES

A. AASB 9 Financial Instruments

As at 1 July 2018 the Bank has retrospectively applied the classification, measurement and impairment requirements of AASB 9 Financial Instruments by adjusting the opening balance sheet and opening equity at 1 July 2018. The Bank has elected not to restate comparative periods of year ended 30 June 2018 as permitted by AASB 9.

The Group has elected to continue applying hedge accounting requirements of AASB 139 as allowed under AASB 9.

Classification

The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the asset.

Financial assets

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). AASB 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous AASB 139 categories of held-to maturity and available for sale.

The classification is dependent upon Bank's business model for managing the financial assets and the contractual terms of the cash flows at initial recognition. Details of the business model assessment and contractual cash flow assessment in determining the financial asset classifications have been included in Note 1(I).

Financial liabilities

AASB 9 Financial Instruments retains almost all of the existing requirements in AASB 139 Financial Instruments on subsequent measurement of financial liabilities with the exception of the treatment of own credit risk relating to financial liabilities designated at FVTPL which is generally presented in other comprehensive income.

Classification and measurement of financial liabilities will remain largely unchanged for the Bank as the majority of its financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

Impairment of financial assets

AASB 9 Financial Instruments introduces a new expected loss impairment model that will require more timely recognition of expected credit losses. The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Loan commitments and financial guarantees.

The new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. Details of the three stage approach applied to measure the expected credit losses on debt instruments accounted for at amortised cost and FVOCI and the approach in determining a significant increase in credit risk have been included in Note 1(l).

AASB 7 Financial Instrument: Disclosures (AASB 7)

AASB 7 have been amended to include new qualitative and quantitative disclosures relating to AASB 9 Financial Instruments, such as new financial instrument classification categories, new disclosures requirements for the three stage ECL impairment model and new hedge accounting disclosure requirements. These requirements have been incorporated into the relevant notes in the financial statements.

Transition

As permitted by AASB 9 Financial Instruments, the Bank has not restated its comparative financial statements and has instead recorded a transition adjustment to its opening balance sheet, retained earnings and other comprehensive income at 1 July 2018 for the impact of the adoption of AASB 9.

The following tables summarise the presentation changes as well as changes to the carrying amounts in the Bank's balance sheet as a result of adoption of AASB 9 Financial Instruments as at 1 July 2018. It includes a comparison of AASB 139 Financial Instruments measurement categories with AASB 9 Financial Instruments and the impact of the classification and measurement changes.

	Note	Original classification under AASB 139	New classification under AASB 9	Original carrying amount under AASB 139 000's $000	As at 1 July 2018 carrying amount under AASB 9 000's $000
Financial assets					
Cash and cash equivalents	4	Amortised cost	Amortised cost	93,652	93,652
Receivables	5	Amortised cost	Amortised cost	3,957	3,957
Receivables due from other financial institutions	6	HTM	Amortised cost	44,765	44,765
Financial Assets at FVOCI	9	AFS	FVOCI	555,618	555,618
Loans and advances to members	7	Amortised cost	Amortised cost	3,046,336	3,039,348
Derivative Asset	28	FVOCI	FVOCI	4	4
Financial liabilities					
Payables to other financial institutions	13	Amortised cost	Amortised cost	116,598	116,598
Deposits	14	Amortised cost	Amortised cost	3,363,502	3,363,502
Derivative Liability	28	FVOCI	FVOCI	384	384

	Carrying amount as at 30 June 2018 $000	Reclassification for AASB 9 $000	Impairment under AASB 9 $000	Remeasurement for AASB 9 $000	Revised presentation as at 1 July 2018 $000
Assets					
Available for Sale	555,618	(555,618)	-	-	-
Financial Assets at FVOCI	-	555,618	-	-	555,618
Held to Maturity Financial Asset	44,765	(44,765)	-	-	-
Receivables due from other financial institutions	-	44,765	-	-	44,765
Loans and advances to members	3,046,336	-	(6,988)	-	3,039,348
Total financial assets	**3,646,719**	**-**	**(6,988)**	**-**	**3,639,731**

B. Impact of the application of AASB 15 Revenue from Contracts with Customers

The group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policies and adjustment to the amounts recognised in the financial statements. The group has adopted AASB 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of the initial application (i.e. 1 July 2018). Therefore, comparative periods have not been restated.

AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

Revenue to the Group arises from placement of life insurance. To determine whether to recognise revenue, the Group follows a 5 step process.

1) Identify the contract with a customer
2) Identify the performance obligations
3) Determining the contract price
4) Allocating the transaction price to the performance obligations
5) Recognising revenue when or as performance obligations are satisfied

The Group often enters into transactions that will give rise to different streams for fees, for example, financial advice and placement of general insurance. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

If the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Under AASB 15, revenue is recognised when the Group satisfies performance obligations by transferring the promised services to its customers. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. Below is a summary of the major services provided and the Group's accounting policy on recognition as a result of adopting AASB 15.

Revenue Item	Nature and Timing of satisfaction of performance obligations	Revenue recognition policy under AASB 118	Revenue recognition policy under AASB 15	Summary of changes in accounting policy
Insurance trailing commission	The Group's performance obligations are to introduce or refer successful insurance policy applications. The performance obligations are therefore satisfied at the point in time the policy is placed by the provider. Cash is received each month based on the premium paid by the client in the previous month. Trail ceases once the policy is terminated.	Revenue is recognised when the general insurance trailing commissions are received or receivable.	Once the group has referred a successful insurance application to the insurance provider, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the policy is placed by the provider. On initial recognition a contract asset is recognised, representing management's estimate of the variable consideration to be received from the completion of this performance obligation. The Group uses the 'expected value' method of estimating the variable consideration.	Under AASB 118 revenue was recognised on receipt whereas under AASB 15, due to performance obligations being satisfied at a point in time, the value of all future revenue is estimated and recognised when the policy is placed by the provider.

The impact of these changes on the Group's retained earnings is as follows:

	Effect on Retained Earnings $000
Opening balance under AASB 139 and AASB 118	241,763
Impact of first time adoption of AASB 9	(6,988)
Impact of first time adoption of AASB 15	1,120
Impact before tax effect	(5,868)
Tax effect	2,089
Total effect	(3,779)
OPENING BALANCE UNDER AASB 9 AND AASB 15	**237,984**

C. Redeemable Preference Shares

The Bank has historically held a reserve within equity for redeemed preference shares. The Bank has changed its accounting policy to record a reserve for this purpose and has therefore released it to retained earnings.

Z. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

AASB 16 removes the lease classification test for lessees and requires all leases (including those classified as operating leases) to be brought onto the balance sheet. There is new guidance on when an arrangement would meet the definition of a lease. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted where AASB 15 Revenue from contracts with customers is adopted at the same time. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 16.

The Company is in the process of confirming the complete inventory of leases as defined in AASB16.

2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2019 $000	2018 $000
	ANALYSIS OF INTEREST REVENUE		
a.	**Category of interest bearing assets**		
	Loans and advances to Members	129,405	127,818
	Investment Securities	13,881	11,605
	Call Deposits with other Financial Institutions	1,100	1,206
	Term Deposits with other Financial Institutions	1,191	786
	Regulatory Deposits	603	520
	TOTAL INTEREST REVENUE	**146,180**	**141,934**
b.	**Category of interest bearing liabilities**		
	Deposits	78,752	75,683
	Bank Overdraft	5	23
	TOTAL INTEREST EXPENSE	**78,757**	**75,706**
c.	**Other Income**		
	Fees and Commissions	7,806	9,745
	Dividends received	291	291
	Bad debts recovered	302	278
	TOTAL OTHER INCOME	**8,399**	**10,313**
d.	**Impairment losses on loans and advances**		
	Bad debts written off directly against profit	639	690
	Addition/(Release) to/(from) provision for doubtful debts	73	(206)
	TOTAL IMPAIRMENT LOSSES ON LOANS & ADVANCES	**712**	**484**

2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

		2019 $000	2018 $000
e.	**Other expenses**		
	Salaries and on costs	17,850	17,295
	Superannuation costs	1,407	1,347
	Transaction costs	9,076	10,320
	Information technology	5,275	5,627
	Insurance and legal	1,957	675
	Directors remuneration	577	599
	Depreciation of plant and equipment	1,938	2,128
	Amortisation of intangibles	176	828
	Amounts set aside to provisions:		
	Employee entitlements	812	1,062
	Impairment of assets*	-	21,778
	Rental – operating leases	2,896	2,743
	Research & Development costs expensed	-	1,066
	Supervision levies	198	172
	Marketing costs	4,047	4,201
	Loss on disposal of property, plant and equipment	-	15
	Other costs	3,970	4,148
	TOTAL OTHER EXPENSES	**50,179**	**74,004**

*Impairment expense relates to the suspension of Project iQ. The impairment provision is outlined in Note 11.

		2019 $	2018 $
f.	**Auditor's Remuneration**		
	Statutory Audit	178,897	170,292
	Regulatory Audits	68,059	64,708
	Non Audit Services	34,821	-
	TOTAL	**281,777**	**235,000**

3. INCOME TAX EXPENSE

		2019 $000	2018 $000
a.	**Current Tax Expense**		
	Current year	744	7,293
	Prior year over/(under) provision for current tax	(18)	956
	Deferred Tax Expense		
	Prior year under/(over) provision for deferred tax	2,406	(956)
	Decrease in deferred tax asset	4,158	(6,643)
	TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT	**7,290**	**650**
b.	**Reconciliation between tax expense and pre-tax net profit:**		
	Profit before tax	24,931	2,053
	Income tax using the Company tax rate of 30%	7,479	616
	Tax effect of expenses/income		
	- Other non-deductible expenses	(189)	34
	INCOME TAX EXPENSE ATTRIBUTABLE TO PROFIT	**7,290**	**650**

4. CASH AND CASH EQUIVALENTS

	2019 $000	2018 $000
Cash on hand	512	702
Deposits at call		
Cash at Bank	43,819	55,616
Other Financial Institutions	10,023	7,334
Other Authorised Deposit-taking Institutions	25,000	30,000
TOTAL CASH AND CASH EQUIVALENTS	**79,354**	**93,652**

5. RECEIVABLES

	2019 $000	2018 $000
Interest receivable	2,241	2,522
Sundry debtors and settlement accounts	1,135	1,435
TOTAL RECEIVABLES	**3,376**	**3,957**
Maturity Analysis		
Not longer than 3 months	1,183	2,473
3 to 12 months	2,193	1,484
	3,376	**3,957**

6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

	2019 $000	2018 $000
Deposits with other Authorised Deposit-taking Institutions	94,321	44,765
TOTAL RECEIVABLE DUE FROM OTHER FINANCIAL INSTITUTIONS	**94,321**	**44,765**
Maturity Analysis		
Not longer than 3 months	64,556	15,000
3 to 12 months	29,765	29,765
	94,321	**44,765**
Fair Value		
Deposits with other Authorised Deposit-taking Institutions	94,470	44,772
	94,470	**44,772**

7. LOANS AND ADVANCES

	2019 $000	2018 $000
Amount due comprises:		
Overdrafts and revolving credit	38,526	41,744
Term loans	3,229,180	3,005,851
Subtotal	**3,267,706**	**3,047,595**
Less:		
Provision for impaired loans (Note 8)	(8,321)	(1,259)[1]
TOTAL LOANS AND ADVANCES	**3,259,385**	**3,046,336**
Maturity analysis - gross loans and advances		
Not longer than 3 months	77,645	76,435
Longer than 3 months and not longer than 12 months	95,549	109,076
Longer than 1 year and not longer than 5 years	557,893	589,723
Longer than 5 years	2,536,619	2,272,361
	3,267,706	**3,047,595**

[1]**Prior year comparatives have not been restated.**

The Bank has established the MEAA Funding Trust ("Trust") to provide access to emergency liquidity support in the event of a systemic liquidity crisis. The Bank sells the rights to future cash flows of eligible residential home loans into the Trust and receives funds equal to the aggregated outstanding balances on all loans which the Trust has purchased and subsequently issued Notes for investors to invest in. Two classes of notes were issued by the Trust and both are fully owned by the Bank. Whilst the rights to the underlying cash flows have been transferred, the Bank has been appointed to service the loans and accordingly must continue to manage the loans as if it were the lender. The Trust is in substance controlled by the Group. Accordingly, the Trust is consolidated and the loans are included in the Group's statement of financial position. The balance of securitised loans included in Note 7 is $550,987,600 (30 June 2018: $705,837,231).

8. PROVISION FOR IMPAIRMENT

The table below represents the reconciliation from the opening to the closing balance of ECL allowances on loan assets to which the impairment requirements under AASB 9 are applied:

	Stage 1 12 month ECL $000	Stage 2 Lifetime ECL $000	Stage 3 Lifetime ECL $000	Provision Total $000
As at 1 July 2018	**6,667**	**80**	**1,501**	**8,248**
Changes due to financial assets that have:				
Transferred to 12 months ECL collectively assessed	-	(16)	(68)	**(84)**
Transfer to lifetime ECL not credit impaired collectively assessed	5	-	268	**273**
Transfer to lifetime ECL credit impaired collectively assessed	4	(8)	-	**(4)**
New and increased provisions net of releases	453	(75)	(1,129)	**(751)**
Bad debts written off	59	62	518	**639**
As at 30 June 2019	**7,188**	**43**	**1,090**	**8,321**

8. PROVISION FOR IMPAIRMENT (CONTINUED)

		2018 $000
	PROVISION ON IMPAIRED LOANS	
a.	**Total provision comprises**[1]	
	Specific provisions	-
	Collective provisions	1,259
	TOTAL PROVISION	**1,259**
b.	**Movement in the specific provision**	
	Balance at the beginning of year	-
	Amounts written off against the specific provision	-
	Increase/(decrease) in provision	-
	SPECIFIC PROVISION BALANCE AT END OF YEAR	**-**
c.	**Movement in the collective provision**	
	Balance at the beginning of year	1,465
	Increase/(decrease) in provision	(206)
	COLLECTIVE PROVISION BALANCE AT END OF YEAR	**1,259**
d.	**Impaired loans written off**	
	Amounts written off directly to expense	690
	Total bad debts	**690**
	Bad debts recovered in the period	278
	TOTAL BAD DEBTS	**278**

[1]**Note 2018 comparatives have not been restated under AASB 9.**

Use of judgements and estimates

The Bank reviews individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. Judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward looking information available at the time. Actual results may differ, resulting in future changes to the allowance.

9. FINANCIAL ASSETS AT FVOCI

	2019 $000	2018 $000
Equity Investments		
Indue Limited	12,468	11,451
Debt instrument investments		
Bank issued certificates of deposit	195,417	293,270
Floating rate notes	379,850	250,897
TOTAL FINANCIAL ASSETS AT FVOCI	**587,734**	**555,618**
Maturity Analysis		
Not longer than 3 months	254,043	257,441
3 to 12 months	88,940	125,485
1-5 years	232,283	161,241
No maturity	12,468	11,451
	587,734	**555,618**
Fair Value		
Bank issued certificates of deposit	195,417	293,270
Floating rate notes	379,850	250,897
Shares in Indue	12,468	11,451
	587,734	**555,618**

INDUE LIMITED

These financial assets are shown at Fair Value through Other Comprehensive Income at 30 June 2019 and consist of shares in a non-listed entity – Indue Limited - which are not actively traded. In the current financial year, the fair value of these assets are supported by reference to independent external valuation and management assessment, taking into account appropriate adjustments since the last valuation.

10a. PLANT AND EQUIPMENT

	2019 $000	2018 $000
Leasehold property improvements - at cost	7,215	8,224
Less: provision for depreciation	(4,292)	(4,616)
	2,923	3,608
Office furniture and equipment - at cost	2,125	2,305
Less: provision for depreciation	(1,224)	(959)
	901	1,346
Computer equipment - at cost	3,632	3,650
Less: provision for depreciation	(3,439)	(3,092)
	193	558
Motor vehicles - at cost	1,283	1,467
Less: provision for depreciation	(551)	(541)
	732	926
TOTAL PLANT AND EQUIPMENT – NET BOOK VALUE	**4,749**	**6,438**

MOVEMENT IN THE ASSETS BALANCES DURING THE YEAR WERE:

	2019		2018	
Plant & Equipment	Leasehold improvements $000	Other plant & equipment $000	Leasehold improvements $000	Other plant & equipment $000
Opening balance	3,608	2,830	4,114	3,547
Purchases	32	374	354	677
Transfers	-	-	-	-
Less:				
Assets disposed	(16)	(141)	(22)	(104)
Depreciation charge	(701)	(1,237)	(837)	(1,291)
Balance at the end of the year	**2,923**	**1,826**	**3,608**	**2,830**

10b. INTANGIBLES

	2019 $000	2018 $000
Computer Software - at cost	10,816	10,483
Less: provision for amortisation	(10,401)	(10,225)
TOTAL INTANGIBLES	**415**	**258**
MOVEMENT IN THE INTANGIBLES BALANCES DURING THE YEAR WERE:		
Computer Software		
Opening balance	258	914
Purchases	333	172
Less:		
Assets disposed	-	-
Amortisation charge	(176)	(828)
Balance at the end of the year	**415**	**258**

11. PREPAYMENTS & DEBTORS

	2019 $000	2018 $000
Prepayments	5,603	5,370
Other assets	1,064	20
Capital costs – Other	-	30
Total	**6,667**	**5,420**
Capitalised expenses	818	21,778
Impairments*	-	(21,778)
Total	**818**	**-**
TOTAL PREPAYMENTS & DEBTORS	**7,485**	**5,420**

*The capitalised costs on Project iQ of $21.8m was fully provided for impairment as at 30 June 2018 due to suspension of the project. The impairment losses have been included into other expenses in Note 2e.

Maturity Analysis		
Less than 12 months	5,431	3,259
Greater than 12 months	2,054	2,161
	7,485	**5,420**

12. DEFERRED TAX

	2019 $000	2018 $000
Net Deferred Tax Asset	**2,068**	**6,895**
Net Deferred tax assets represents the estimated future tax benefit/liability at the applicable rate of 30% on the following items:		
Deferred Tax Assets		
- Provisions for impairment on loans	2,497	378
- Provisions for employee benefits not currently deductible	1,238	1,106
- Provisions for Makegood	-	-
- Other accruals	631	804
- Fixed assets	218	328
- Provision for asset impairment	-	6,533
- Financial Instruments	522	114
	5,106	**9,263**
Deferred Tax Liabilities		
- Financial Instruments	(3,038)	(2,368)
	(3,038)	**(2,368)**
NET DEFERRED TAX ASSETS	**2,068**	**6,895**

13. PAYABLES DUE TO OTHER FINANCIAL INSTITUTIONS

	2019 $000	2018 $000
Electronic Certificates of Deposit issued	88,481	66,542
Floating Rate Notes Issued	55,045	50,057
TOTAL PAYABLES TO OTHER FINANCIAL INSTITUTIONS	**143,526**	**116,598**
Maturity Analysis		
Not longer than 3 months	136,593	111,666
Longer than 3 and not longer than 6 months	6,933	4,933
Longer than 6 and not longer than 12 months	-	-
	143,526	**116,598**

14. DEPOSITS

	2019 $000	2018 $000
Deposits		
- Call deposits	2,296,687	2,223,783
- Superannuation Savings Accounts	239,109	249,140
- Term deposits	1,069,991	889,899
Total deposits	**3,605,787**	**3,362,822**
Member withdrawable shares	670	680
TOTAL DEPOSITS & SHARES	**3,606,457**	**3,363,502**
Maturity analysis		
At call	2,536,466	2,473,602
Not longer than 3 months	385,537	363,511
Longer than 3 and not longer than 6 months	228,244	215,313
Longer than 6 and not longer than 12 months	246,763	170,197
Longer than 12 months and not longer than 5 years	209,447	140,879
	3,606,457	**3,363,502**

CUSTOMER OR INDUSTRY GROUPS

The majority of deposits are from employees and former employees of companies within the Qantas Group, associated companies, Commonwealth Government departments and authorities and from related or nominated persons or entities in accordance with the Constitution of the Bank. Deposits are also accepted from non-members and wholesale depositors.

CHARGE ON MEMBERS' ACCOUNTS

The Bank may charge the deposit accounts of a Member in relation to any debt owed by the member to the Bank.

15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

	2019 $000	2018 $000
Creditors and accruals	3,344	8,368
Interest payable on deposits	7,614	7,233
Sundry creditors	2,740	6,119
TOTAL CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS	**13,698**	**21,720**

16. TAXATION ASSETS AND LIABILITIES

	2019 $000	2018 $000
Current income tax (asset)/liability	(1,087)	1,504
TOTAL TAXATION (ASSET)/LIABILITIES	**(1,087)**	**1,504**
Current income tax liability comprises:		
Balance – previous year	1,504	(372)
Income tax paid	(3,695)	(6,757)
RSA tax liability	377	384
Liability for income tax in current year	745	7,293
(Over)/ understatement in prior year	(18)	956
	(1,087)	**1,504**

17. PROVISIONS

	2019 $000	2018 $000
Employee entitlements	4,127	3,686
TOTAL PROVISIONS	**4,127**	**3,686**
PROVISIONS MOVEMENTS		
Employee Entitlements		
Balance – previous year	3,686	3,015
Less amounts paid	(371)	(391)
Increases in provision	812	1,062
CLOSING BALANCE	**4,127**	**3,686**

18. RESERVES

	2019 $000	2018 $000
Capital Reserve Account	-	388
General Reserve for Credit Losses	1,796	8,543
Cash Flow Hedge Reserve	(1,218)	(266)
Financial Assets at FVOCI	7,089	5,521
TOTAL RESERVES	**7,667**	**14,186**
Capital Reserve Account		
Balance at the beginning of the year	388	376
Transfer to retained earnings	(388)	12
BALANCE AT THE END OF YEAR	**-**	**388**

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

General Reserve for Credit Losses		
Balance at the beginning of the year	8,543	8,106
Add: increase/(decrease) transferred from retained earnings	(6,747)	438
BALANCE AT THE END OF YEAR	**1,796**	**8,543**

This reserve records amounts set aside as a general provision for doubtful debts and is maintained to comply with the Prudential Standards set down by APRA.

18. RESERVES (CONTINUED)

	2019 $000	2018 $000
Cash Flow Hedge Reserve		
Balance at the beginning of the year	(266)	(335)
Movement of cash flow hedge	(1,359)	99
Effect of tax	407	(30)
BALANCE AT THE END OF YEAR	**(1,218)**	**(266)**
Financial Assets at FVOCI		
Balance at the beginning of the year	5,521	5,829
Fair value gain on available for sale financial assets	2,240	(440)
Effect of tax	(672)	132
BALANCE AT THE END OF YEAR	**7,089**	**5,521**

19. RETAINED EARNINGS

	2019 $000	2018 $000
Retained profits at the beginning of the financial year	241,763	240,810
Add: operating profit for the year	17,641	1,403
Add: Change on adoption of AASB 9	(4,900)	-
Add: Change on adoption of AASB 15	1,120	-
Add: Transfer from/(to) reserve for credit losses in year	6,747	(438)
Add: Transfer to capital account on change in accounting policy	388	(12)
RETAINED PROFITS AT THE END OF THE FINANCIAL YEAR	**262,759**	**241,763**

20. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

2019	Up to 3 months $000	Up to 12 months $000	1-5 years $000	Non interest bearing $000	Total $000
ASSETS					
Cash	78,842	-	-	512	**79,354**
Receivables	-	-	-	3,376	**3,376**
Financial assets at FVOCI:					
Shares in Indue Ltd	-	-	-	12,468	**12,468**
Certificates of deposit	190,528	4,889	-	-	**195,417**
Floating rate notes	379,850	-	-	-	**379,850**
Receivables due from other financial institutions	64,556	29,765	-	-	**94,321**
Loans & advances	2,934,982	116,679	207,724	-	**3,259,385**
Derivative Asset	-	-	-	-	**-**
Total Assets	**3,648,758**	**151,333**	**207,724**	**16,356**	**4,024,171**
LIABILITIES					
Payables to other financial institutions	143,526	-	-	-	**143,526**
Deposits	2,921,333	475,007	209,447	-	**3,605,787**
Redeemable Preference Shares	-	-	-	670	**670**
Payables	-	-	-	7,613	**7,613**
Derivative Liability	239	695	806	-	**1,740**
Total Liabilities	**3,065,098**	**475,702**	**210,253**	**8,283**	**3,759,336**

20. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

2018	Up to 3 months $000	Up to 12 months $000	1-5 years $000	Non interest bearing $000	Total $000
ASSETS					
Cash	92,950	-	-	702	**93,652**
Receivables	-	-	-	3,957	**3,957**
Available for sale assets:					
Shares in Indue Ltd	-	-	-	11,451	**11,451**
Certificates of deposit	211,912	81,358	-	-	**293,270**
Floating rate notes	250,897	-	-	-	**250,897**
Authorised deposit taking institutions	15,000	29,765	-	-	**44,765**
Loans & advances	2,709,034	72,936	264,366	-	**3,046,336**
Derivative Asset	(2)	(11)	17	-	**4**
Total Assets	**3,279,791**	**184,048**	**264,383**	**16,110**	**3,744,332**
LIABILITIES					
Payables to other FIs	116,598	-	-	-	**116,598**
Deposits	2,836,433	385,510	140,879	-	**3,362,822**
Redeemable Preference Shares	-	-	-	680	**680**
Payables	-	-	-	7,233	**7,233**
Derivative Liability	66	201	117	-	**384**
Total Liabilities	**2,953,097**	**385,711**	**140,996**	**7,913**	**3,487,717**

21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2019			2018		
	Fair Value $000	Book Value $000	Fair Value Level	Fair Value $000	Book Value $000	Fair Value Level
FINANCIAL ASSETS						
Investment Securities:						
Shares in Indue Ltd	12,468	12,468	Level 3	11,451	11,451	Level 3
Certificates of deposit	195,417	195,417	Level 2	293,269	293,269	Level 2
Floating rate notes	379,850	379,850	Level 2	250,897	250,897	Level 2
With other financial institutions	94,470	94,321	Level 2	44,772	44,765	Level 2
Derivative asset	-	-	Level 2	4	4	Level 2
Loans & advances	3,261,185	3,259,385	Level 2	3,046,538	3,046,336	Level 2
FINANCIAL LIABILITIES						
Payables to Other FIs	143,857	143,526	Level 2	116,845	116,598	Level 2
Deposits	3,610,544	3,605,787	Level 2	3,363,216	3,362,822	Level 2
Derivative liability	1,740	1,740	Level 2	384	384	Level 2

Fair values are categorised into different levels in fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

There have been no transfers between levels for the year ended 30 June 2019.

21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following methods and assumptions are used to determine the fair values of financial assets and liabilities.

CASH ASSETS

The carrying amounts approximate fair value because of their short term to maturity or are receivable on demand.

RECEIVABLES

The carrying amount approximates fair value because of their short term to maturity.

INVESTMENT SECURITIES

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security.

LOANS AND ADVANCES

For variable rate loans, (excluding impaired loans) the amount shown in the Statement of Financial Position is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio's future principal and interest cash flows), based on the maturity of the loans. The discount rates applied are based on the current applicable rate offered for the average remaining term of the portfolio.

The fair value of impaired loans is calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

OTHER ASSETS

The carrying amount approximates fair value as they are short term in nature.

DEPOSITS

The book value of non-interest bearing, call and variable rate deposits, and fixed rate deposits is the amount shown in the Statement of Financial Position as at 30 June 2019. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits to members.

PAYABLES

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

DERIVATIVES

The fair value of derivatives is calculated by discounting expected cash flows using applicable market rates.

INDUE

Level 3 fair values	$000
Balance at 1 July 2017	11,451
- Net change in fair value recognised in OCI	-
Balance at 30 June 2018	11,451
Balance at 1 July 2018	11,451
- Net change in fair value recognised in OCI	1,017
Balance at 30 June 2019	12,468

FAIR VALUE FOR INDUE

The fair value for investments in the unlisted equity are supported by reference to independent external valuation and management assessment, taking into account appropriate adjustments since the last valuation.

22. FINANCIAL COMMITMENTS

		2019 $000	2018 $000
a.	**Outstanding loan commitments**		
	Loans approved but not funded	**60,437**	**48,384**

The loans will be made available at the discretion of Management and the Board subject to the availability of funds, anticipated to be drawn down within 6 months.

b.	**Outstanding overdraft commitments**		
	Member overdraft facilities approved but not funded	**42,709**	**43,327**

There are no restrictions as to the utilisation of such overdraft facilities.

c.	**Outstanding credit card commitments**		
	Member credit card facilities approved but not funded	**63,864**	**66,908**
d.	**Loan Redraw Facilities**		
	Loan Redraw facilities available	**280,778**	**271,294**

e. **Future Lease Rental Commitments**

Operating lease payments under existing lease arrangements for building accommodation, are payable over the following periods:

Within 1 year	2,541	2,331
Later than 1 year but not later than 5 years	10,058	7,831
Over 5 years	5,353	6,069
	17,952	**16,231**

The Group leases various properties under operating leases expiring from one to ten years, such leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental subject to movements in the Consumer Price Index.

f. **Material Contracts**

The Group signed an addendum to a contract with Data Action Pty. Ltd. who provide computer facilities, management services and associated support services on 13 April 2019. The contract addendum extended the term of the agreement for a period of at least 2 years (to 31 July 2020). The fees payable over the next 2 years are as follows:

Within 1 year	2,793	2,821
Later than 1 year but not later than 5 years	237	2,905
	3,030	**5,726**

22. FINANCIAL COMMITMENTS (CONTINUED)

g. Charge over Assets

The Group has executed an equitable mortgage over its assets in favour of Indue Limited. The equitable charge is to meet any settlement obligations arising from member chequing and debit card facilities

h. Contingent Liabilities and Contingent Assets

The Directors of the Group are of the opinion that there are no matters that require a provision other than those that are adequately provided for.

23. STANDBY BORROWING FACILITIES

Unrestricted access to the following credit facilities with a bank and an Authorised Deposit-taking Institution are held:

2019	Gross	Current Borrowing $000	Net Available $000
Unsecured Overdraft	11,100	-	11,100
TOTAL STANDBY BORROWING FACILITIES	**11,100**	**-**	**11,100**
2018	**Gross**	**Current Borrowing $000**	**Net Available $000**
Unsecured Overdraft	11,100	-	11,100
TOTAL STANDBY BORROWING FACILITIES	**11,100**	**-**	**11,100**

24. RELATED PARTIES

A. REMUNERATION OF KEY MANAGEMENT PERSONNEL (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

Key management personnel have been taken to comprise the Directors and the three Members (2018: three Members) of the executive management responsible for the day-to-day financial and operational management of the Group.

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

	2019 $	2018 $
(a) Short-term employee benefits	1,997,291	1,998,101
(b) Post-employment benefits - superannuation contributions	181,685	181,758
(c) Other long-term benefits	31,655	206,783
Total	**2,210,631**	**2,386,642**

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

All remuneration to Directors was approved by the Members at the 2016 Annual General Meeting of the Bank.

24. RELATED PARTIES (CONTINUED)

B. LOANS TO KEY MANAGEMENT PERSONNEL

		2019 $	2018 $
(i)	The aggregate value of loans to key management personnel as at balance date amounted to:	**8,961,610**	**8,636,887**
(ii)	The total value of revolving credit facilities to key management personnel, as at balance date amounted to:	40,000	40,000
	Less amounts drawn down and included in (i)	-	-
	Net balance available	**40,000**	**40,000**
(iii)	During the year the aggregate value of loans disbursed to key management personnel amounted to:		
	Revolving credit facilities	484,661	605,015
	Term Loans	3,217,788	2,291,866
		3,702,449	**2,896,881**
(iv)	During the year the aggregate value of repayments received amounted to:	**3,706,228**	**3,404,900**
(v)	Interest and other revenue earned on Loans and revolving credit facilities to KMP	**328,503**	**294,098**

The Group's policy for lending to Directors and Management is that all loans are approved and deposits accepted on the same terms and conditions that applied to Members for each class of loan or deposit.

There are no loans that are impaired in relation to the loan balances with Directors or other KMP.

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

24. RELATED PARTIES (CONTINUED)

C. OTHER TRANSACTIONS BETWEEN RELATED PARTIES INCLUDING DEPOSITS FROM KEY MANAGEMENT PERSONNEL ARE:

	2019 $	2018 $
Total value term and savings deposits from KMP	**5,715,704**	**4,071,830**
Total interest paid on deposits to KMP	**98,481**	**71,881**

The Group's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions that applied to Members for each type of deposit.

D. TRANSACTIONS WITH OTHER RELATED PARTIES

Other transactions between related parties include deposits from Director related entities or close family members of Directors, and other KMP. The Group's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions that applied to Members for each type of deposit.

There are no benefits paid or payable to the close family members of the key management personnel.

25. MEMBERSHIP

A. ELIGIBILITY

Membership is available to employees and former employees of companies within the Qantas Group, associated companies and industries, Commonwealth Government departments and authorities and nominated or related persons or entities in accordance with the Constitution of the Bank.

All Members are required to hold five redeemable preference shares of $2 each in accordance with member eligibility. From 1 April 2010, the Bank ceased calling up the share capital and for all new Members who joined the Bank since this date, the share capital remains uncalled.

B. TOTAL MEMBERSHIP

	2019 Number	2018 Number
Total membership	**96,164**	**94,640**
of which: fully paid	66,815	67,821
of which: uncalled	29,349	26,819

26. SUPERANNUATION LIABILITIES

The Group contributes to the Qantas Superannuation Plan ("the Plan") with other entities in the Qantas Airways Group. For all employees the Group contributes the minimum required under the Superannuation Guarantee Act (1992) plus, additional contributions are made for those eligible permanent employees. Employees may also make additional contributions to the Plan, depending on their circumstances. All employees are entitled to benefits on resignation, retirement, disability or death. The Group has no interest in the Plan (other than as a contributor) and is not liable for the performance of the Plan, or the obligations of the Plan. The Group contributed $1,451,299 to the Plan during the 2019 financial year, ($1,395,529 in 2018). No contributions were outstanding as at 30 June 2019.

27. NOTES TO STATEMENT OF CASH FLOWS

		2019 $000	2018 $000
a.	**Reconciliation of Cash and Cash equivalents**		
	For the purpose of the Statement of Cash Flow, cash includes:		
	Cash on hand	512	702
	Deposits at call	68,819	85,616
	Other Authorised Deposit Taking Institutions	10,023	7,334
	TOTAL CASH AND CASH EQUIVALENTS	**79,354**	**93,652**
b.	**Reconciliation of cash from operations to accounting profit**		
	The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
	Profit after income tax	17,641	1,403
	Add/(Deduct):		
	Bad debts written off	638	690
	Depreciation & amortisation expense	2,114	2,956
	Impairment expense	-	21,778
	(Decrease)/increase in provision for impairment	73	(206)
	(Decrease)/increase in provisions for employee entitlements	441	671
	(Decrease)/increase in other provisions	-	-
	(Decrease)/increase in provision for income tax	(2,969)	1,876
	(Increase)/decrease in net deferred tax assets	7,295	(6,772)
	(Decrease) in interest payable	380	951
	Increase in creditors and other liabilities	(1,193)	(3,469)
	Decrease/(increase) in prepayments	(1,021)	(1,832)
	Decrease/(increase) in sundry debtors	77	341
	(Increase)/decrease in interest receivable	281	(1,116)
	(Increase) in member loans	(220,749)	(140,877)
	Increase in deposits and shares	262,709	240,038
	Loss on Property, Plant and Equipment	-	15
	(Increase)/in receivables from other financial institutions	(79,433)	(118,009)
	NET CASH FROM OPERATING ACTIVITIES	**(13,716)**	**(1,562)**

28. FINANCIAL RISK MANAGEMENT

A. INTRODUCTION AND OVERVIEW

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This Note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing those risks, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established both a Risk Committee and Audit Committee to oversee the financial reporting, audit and risk management processes.

The Risk Committee is comprised of not less than three non-executive Directors.

The Risk Committee's major activities are to:

- Assist the Board to update and regularly review the Group's risk profile, including the Group's risk appetite;
- Assist the Board to review the Group's policy on risk and review the Group's system of risk management and internal control, having regard to the Group's material business risks. These risks may include but are not limited to:
  - Credit risk;
  - Liquidity risk;
  - Market risk (funding risk and interest rate risk);
  - Operational risk (risks attributable to the daily operations of the Group, such as data, legal, fraud, property and asset); and
  - Other risks which if not properly managed will affect the Group (such as environmental, sustainability, compliance, strategic, external, ethical conduct, reputation or brand, technological, product or service quality and human capital).
- Oversee, monitor and review the Group's system of risk management, policies and procedures;
- Report to the Board on all material matters arising from its review and monitoring functions by the provision to the Board of the Committee's minutes of meetings or by special report, as appropriate;
- Review and make recommendations on any changes to risk limit structures; and
- Oversee and monitor Management's annual risk assessment.

The Audit Committee is comprised of not less than three non-executive Directors, the majority of who must be independent. The Chair of the Board cannot be Chair of the Audit Committee.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Audit Committee's major activities are to:

- recommend to the Board the appointment of both the internal and external auditor;
- monitor reports received from internal audit and external audit, and management's responses thereto;
- liaise with the auditors (internal and external) on the scope of their work, and experience in conducting an effective audit;
- ensure that external auditors remain independent in the areas of work conducted;
- oversight compliance with statutory responsibilities relating to financial disclosure and management information reporting to the Board;
- review and approve the compliance approach, ensuring that it covers all material risks and financial reporting requirements of the Group;
- assist the Board in the engagement, performance assessment and remuneration of the auditors;
- evaluate the adequacy and effectiveness of the Group's administrative, operating and accounting policies;
- monitor and review the propriety of any related party transactions;
- overseeing APRA statutory reporting requirements, as well as other financial reporting requirements; and
- establish and maintain policies and procedures for whistle blowing.

B. CREDIT RISK

Credit risk is the risk of financial loss to the Group if a Member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to Members, liquid investments and investment securities.

Management of credit risk – loans and advances

The Board of Directors has delegated responsibility for the management of credit risk to the Lending & Credit Control departments in respect of loans and advances. The Group has established functional areas responsible for the oversight of the Group's credit risk, including:

- Formulating credit policies covering credit assessment, collateral requirements, reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorisation limits are delegated by the Board of Directors and are detailed within policy;
- The CEO, or in his absence the CFO, must approve all loans outside of approved policy;
- Total loan facilities to any one member or family group must not exceed $1,350,000 without the prior approval of the Board lending panel. Loans approved by the Board lending panel must be confirmed at the next Board meeting;
- Limit concentrations of exposure to counterparties. Total borrowings for any Member must not exceed 25% of the Group's tier 1 capital;
- Reviewing and assessing credit risk. The Credit Control department assesses all credit exposures where they are in breach of contractual obligations;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit quality – lending portfolios

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. The bank sets aside provisions for impairment of loans in accordance with its internal policies and procedures, which comply with AASB 9 Financial Instruments: Recognition and Measurement and APRA's APS 220 Credit Quality.

Certain prior year amounts have been reclassified for consistency with the current year presentation. An adjustment has been made to reclassify appropriate balances from personal lending to residential mortgages. The following table sets out information about the overdue status of loans and advances to members in Stage 1, Stage 2 and Stage 3 as defined in Note 1. The distribution of loans and advances by credit quality at the reporting date was:

	2019				
	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total 2019 $000	Total 2018 $000
Mortgage loans					
Current & less than 30 days	3,198,971			3,198,971	2,966,533
31 days & less than 60 days		4,159		4,159	7,585
61 days & less than 90 days		2,095		2,095	1,321
91 days & less than 120 days			1,741	1,741	1,866
Greater than 120 days			8,230	8,230	5,967
Total Mortgage Loans				**3,215,196**	**2,983,272**
Personal loans					
Current & less than 30 days	51,738			51,738	63,055
31 days & less than 60 days		323		323	481
61 days & less than 90 days		136		136	234
91 days & less than 120 days			133	133	132
Greater than 120 days			180	180	421
Total Personal Loans				**52,510**	**64,323**
Total Loans				**3,267,706**	**3,047,595**

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Management of credit risk – liquid investments

The risk of losses from liquid investments is reduced by the nature and quality of the independent rating of the counterparty, and the limits of concentration of investments to any individual counterparty. The Group will only hold investments with Authorised Deposit-taking Institutions (ADIs) trading in Australia and Australian Federal and State Governments. Any exposures to any individual ADI (or group) will not exceed 50% of the Group's capital base. There is no set limit for government counterparties.

In addition to limiting counterparty exposures, the Group will only hold High Quality Liquid Investments (HQLA), assets which can be easily converted into cash in private markets, within the range detailed below:

Short Term Credit Rating	Min HQLA %	Max HQLA %
Standard & Poors A1 or Equivalent	50	100
Standard & Poors A2 or Equivalent	0	50
Unrated (Indue Limited only)	0	Refer below

Indue Limited exposures are allowable as part of HQLA. Minimum holding requirements are prescribed by Indue Limited on an as required basis, which is typically revised quarterly, (refer Note 9).

Management of credit risk – equity investments

In respect of equity investments, the Board must approve any equity holding, and will have regard to the size and risks associated with any proposed investment to ensure it will not have a detrimental effect on the Group's capital position.

The Board has approved the holding of membership and participation equity in Indue Limited and future equity subscriptions. The equity may be in the form of shares and/or subordinated debt. The level of equity is based on the assets of the Group and is reviewed twice yearly. The Constitution of Indue Limited also provides for deferral of equity subscriptions if, in Indue Limited's assessment, it holds sufficient capital. The Group is required at all times to hold sufficient equity in Indue Limited to support the services sourced from them, which may be raised from time to time. Indue Limited is an ADI supervised by APRA. The Group will obtain APRA's approval before committing to any exposure to an unrelated entity in excess of prescribed limits.

Impaired loans

Loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans

Loans where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. Currently, the Group has no renegotiated loans.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Allowances for impairment

The Group uses an Expected Credit Loss model as defined in AASB 9. Details are included in Note 1(l).

Write-off policy

Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering the financial asset in in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs. This assessment is carried out at the individual asset level. Recoveries of amounts previously written-off are included in the impairment of loans and advances line in the Income Statement.

Collateral

Where the Group holds collateral against loans and advances to Members, it is in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against past due and impaired financial assets are shown below:

Loans and advances to Members

	2019 $000	2018 $000
Stage 3 Lifetime	1,090	1,501
Total	**1,090**	**1,501**

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Group does not use or take repossessed properties for business use. During the year ended 30 June 2019, the Group took possession of nil collateral (30 June 2018: $253,432).

LVR Summary

LVR Buckets	2019 $000	2018 $000
0 – 60%	1,249,743	1,154,254
60.01 – 80%	1,398,032	1,253,371
80.01 – 90%	334,979	308,738
90.01 – 100%	231,116	265,826
100% +	1,326	1,084
Total	**3,215,196**	**2,983,273**

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group monitors concentration of credit risk by purpose. An analysis of concentrations of credit risk at the reporting date is shown below:

	2019 $000	2018 $000
Residential loans	3,215,196	2,983,272
Personal loans	52,510	64,323
Total gross loans	**3,267,706**	**3,047,595**

The Group also monitors the investment options in the market based on the credit rating of the counterparty. An analysis of concentrations of investment credit risk at the reporting date is shown below:

	2019 $000	2018 $000
Short Term Rating (Standard and Poors or equivalent)		
A1 and above	382,458	334,858
A2	303,217	312,168
A3	23,529	-
Unrated (Indue Limited)	40,065	37,198
Total	**749,268**	**684,224**

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

C. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting Member withdrawal requests in a timely manner.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds available to meet its liabilities under both normal and stressed conditions, without incurring unacceptable losses.

The Group maintains a portfolio of short term liquid assets to ensure that sufficient liquidity is maintained for daily operational requirements.

The Group has documented its strategy to manage liquidity risk in a liquidity policy and liquidity management plan which includes the following activities by Management:

- On a daily basis, an assessment is made of the daily cash position and the investment action to be undertaken.
- On a daily basis, a summary of the Group's liquidity position, including movements in major liquid assets and liabilities is reviewed.
- On a monthly basis, the liquidity position is reported to the Board, including an explanation of significant movements and corrective action taken, where applicable.
- Periodically liquidity forecasts and associated "stress-tested" worst-case scenarios are modeled and reported to the Risk Committee.
- Regularly reporting current and emerging liquidity management trends to the Risk Committee and highlighting risk areas and relevant market conditions/expectations.

Management provides an annual budget to the Board, which includes details of the Group's forecast liquidity position. Monthly Board reporting includes tracking against the budgeted forecast position.

APRA Prudential Standards require at least 9% of total adjusted liabilities to be held as liquid assets capable of being converted to cash within 48 hours. The Group's policy is to apply a minimal target of 11.5% (2018: 11.5%) of funds as liquid assets to maintain adequate funds for meeting daily cash flow needs. A trigger level of 13% (2018: 13%) has been set for a detailed review of liquidity levels by the Group to provide sufficient time for remedial action to be taken. During the past year the Group did not breach these requirements.

The liquidity policy and management plan are reviewed at least annually by the Risk Committee, with the policy then approved by the Board.

The liquidity ratio is calculated based on the formula prescribed by APRA in APS 210 as can be seen below:

	2019 $000	2018 $000
High quality liquid assets	661,377	636,021
Total Liabilities Base	4,109,675	3,827,072
Liquidity Ratio	**17.66%**	**17.01%**
MLH Ratio	**16.09%**	**16.62%**

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

The residual contractual maturities of the financial liabilities are outlined in the table below:

30 June 2019 On Statement of Financial Position	Note	Carrying amount $000	Gross nominal (outflows) $000	Less than 1 month $000	1 – 3 months $000	3 months to 1 year $000	1 – 5 years $000
Financial Inst.	13	143,526	143,526	15,918	65,629	61,978	-
Deposits	14	3,606,457	3,621,530	2,732,206	309,300	437,474	142,550
Creditors and accruals	15*	6,085	6,085	6,085	-	-	-
Derivative Liability		1,740	1,770	67	168	676	859
Subtotal		**3,752,819**	**3,767,923**	**2,754,276**	**375,098**	**495,140**	**143,409**
Off Statement of Financial Position							
Commitments to extend credit	22	60,437	60,437	60,437	-	-	-
Total		**3,813,259**	**3,828,361**	**2,814,715**	**375,098**	**495,140**	**143,409**

30 June 2018 On Statement of Financial Position	Note	Carrying amount $000	Gross nominal (outflows) $000	Less than 1 month $000	1 – 3 months $000	3 months to 1 year $000	1 – 5 years $000
Financial Inst.	13	116,598	116,598	22,811	63,820	29,967	-
Deposits	14	3,363,502	3,376,811	2,590,052	221,731	451,744	113,284
Creditors and accruals	15*	14,487	14,487	12,445	-	-	2,042
Derivative Liability		384	390	22	44	204	120
Subtotal		**3,494,971**	**3,508,286**	**2,625,330**	**285,595**	**481,915**	**115,446**
Off Statement of Financial Position							
Commitments to extend credit	22	48,384	48,384	48,384	-	-	-
Total		**3,543,355**	**3,556,670**	**2,673,714**	**285,595**	**481,915**	**115,446**

*excluding interest payable and PAYG tax

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

D. MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity prices or foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

The Group is exposed to interest rate risk arising from changes in market interest rates. However, the Group is not exposed to currency risk and other price risk as the Board prohibits trading in financial instruments.

Overall authority for market risk is vested in the Board. The Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and review of their implementation.

Exposure to market risks

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The main tool used to measure and control market risk exposure within the Group's non-trading portfolio is Value at Risk (VaR). The VaR of the non-trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99% confidence level and assumes a 20-day holding period. The VaR model used is based mainly on historical simulation, taking account of market data from the previous two years, and observed relationships between different markets and prices. The model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 20-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.
- A 250-day observation period. The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for interest rate risk. The interest rate risk policy which details the overall structure of VaR limits is subject to review and approval by Risk Committee and the Board. The VaR limit has been set at a maximum of 3% of Capital. VaR is measured monthly and reported to the Board at each meeting. A detailed VaR report is provided to the Risk Committee on a monthly basis.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

A summary of the VaR position of the Group's non-trading portfolio at 30 June is as follows:

	2019 (% of Capital)	2018 (% of Capital)
At 30 June	0.67%	0.29%

A summary of the Group's interest rate gap position can be seen in note 20.

The management of interest rate risk also involves the monitoring of the sensitivity of the Group's financial assets and liabilities to a parallel shift across the yield curve. An analysis of the Group's sensitivity to a 200 basis points increase in market interest rates is as follows:

	2019 (% of Capital)	2018 (% of Capital)
At 30 June	7.93%	3.66%

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Derivative assets and liabilities

The Group enters into derivative transactions which are designated and qualify as cash flow hedges, for recognised assets, liabilities or forecast transactions. The Group adopted hedge accounting on 1 July 2013.

The Group uses interest rate swaps to protect against changes in cash flows of certain fixed rate loans. For the year ended 30 June 2019 the Group recognised a profit of $nil (2018: $nil), which represents the ineffective portion of the cash flow hedges.

The effective portion of gains or losses on derivative contracts designated as cash flow hedges are initially recorded in the Cash Flow Hedge Reserve but are reclassified to current period earnings when the hedged cash flow occurs.

During the year ended 30 June 2019 the Group did not sell any swaps designated in cash flow hedge relationships.

2019	Notional value $000	Fair value asset $000	Fair value liability $000
Derivatives designated as cash flow hedges	96,000	-	1,740

Below is the schedule indicating as at 30 June 2019, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

2019	Within 1 year $000	1 - 2 years $000	2 - 3 years $000
Cash outflows	(1,762)	(1,060)	(548)
Cash inflows	850	461	289
Net cash flows	(912)	(599)	(259)

2018	Notional value $000	Fair value asset $000	Fair value liability $000
Derivatives designated as cash flow hedges	92,500	4	384

Below is the schedule indicating as at 30 June 2018, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

2018	Within 1 year $000	1 - 2 years $000	2 - 3 years $000
Cash outflows	(1,599)	(1,363)	(830)
Cash inflows	1,315	1,240	851
Net cash flows	(284)	(123)	21

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the tables below.

30 June 2019	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets $000	Gross amounts set off in the balance sheet $000	Net amount of financial assets presented in the balance sheet $000	Amounts subject to master netting arrangements and cash collateral $000	Net amounts $000
Financial assets					
Derivative financial instruments	-	-	-	-	-
Financial liabilities					
Derivative financial instruments	1,740	-	1,740	-	1,740

30 June 2018	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets $000	Gross amounts set off in the balance sheet $000	Net amount of financial assets presented in the balance sheet $000	Amounts subject to master netting arrangements and cash collateral $000	Net amounts $000
Financial assets					
Derivative financial instruments	4	-	4	-	4
Financial liabilities					
Derivative financial instruments	384	-	384	-	384

Master netting arrangement

Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the above table.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

E. OPERATIONAL RISK

Operational risk is a risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks (such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour). Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial loss and damage to the Group's reputation, against excessive cost and control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior Management within each business unit. This responsibility is supported by the development of the Group's overall standards for management of operational risk in the following areas:

- Compliance with regulatory and other legal requirements;
- Third party supplier relationships;
- Business continuity and contingency planning;
- People & key person risk including training and professional development;
- Outsourcing risk associated with materially outsourced services;
- Competition risk;
- Fraud risk;
- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with the Group's standards is supported by a program of periodic reviews undertaken by Internal Audit and Compliance. The results of these reviews are discussed with the management of the business unit to which they relate and are reported to the Audit & Compliance Committee.

F. CAPITAL MANAGEMENT

The Group is licensed as an ADI under the Banking Act 1959 and is subject to prudential supervision by APRA. APRA has issued a series of prudential standards to implement the Basel II capital framework which took effect from 1 January 2008. The Basel III measurement and monitoring of Capital has been effective since 1 January 2013.

The Basel III standards include APS 110 Capital Adequacy which:

(a) Imposes on the Board a duty to ensure that the Group maintains an appropriate level and quality of capital commensurate with the level and extent of the risks to which the Group is exposed from its activities; and

(b) Obliges the Group to have in place an Internal Capital Adequacy Assessment Process (ICAAP).

The Group has documented its strategy to manage capital in a capital policy and capital management plan.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Under Basel III framework, the regulatory capital is divided into Common Equity Tier 1, Additional Tier 1, and Tier 2 Capital. Common Equity Tier 1 capital consists of retained earnings and capital reserve less intangible assets and other regulatory adjustments. Tier 2 Capital consists of collective impairment reserve. Total capital is the aggregate of Tier 1 and Tier 2 capital.

Capital Adequacy is measured by means of a risk based capital ratios. The capital ratios reflect capital as a percentage of total risk weighted assets.

The Group is required to maintain at least 12.5% capital. The Group's policy is to apply a minimum target of 13.5% capital. A trigger level of 14% has been set by the Board to provide sufficient time for remedial action to be taken.

The Group's regulatory capital position at 30 June was as follows:

	2019 $000	2018 $000
Tier 1 Capital		
General reserves	249,645	244,470
Current year earnings	17,641	1,403
Upfront fee income		213
Less: Deferred tax assets	(2,068)	(6,896)
Less: Intangible assets	(1,175)	(258)
Less: Other capitalised expenses	300	(24)
Less: Equity investment in other ADI's	(3,743)	(3,743)
Less: Fair value adjustments	(5,871)	(5,255)
Total	254,729	229,910
Tier 2 Capital		
Collective impairment reserve	8,529	9,460
Total	8,529	9,460
Total regulatory capital	**263,258**	**239,370**
Risk weighted assets		
Credit risk	1,535,631	1,450,796
Operational risk	222,842	213,168
Total risk weighted assets	1,758,331	1,663,964
Capital ratios	**14.97%**	**14.39%**

29. SUBSEQUENT EVENTS

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Group in subsequent years.

30. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2019 the parent of the Group was the Bank.

	2019 $000	2018 $000
Result of parent entity		
Profit for the year	17,641	1,403
Other comprehensive income	616	(239)
Total comprehensive income for the year	**18,257**	**1,164**
Financial position of parent entity at year end		
Total assets	4,613,186	4,502,294
Total liabilities	4,342,760	4,246,345
Total equity of parent entity comprising of:		
Reserves	7,667	14,186
Retained earnings	262,759	241,763
Total equity	**270,426**	**255,949**

Qudos Mutual Limited trading as Qudos Bank

A.B.N. 53 087 650 557 Incorporated in Australia
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