Qudos Bank

annual report

2017

Contents

Chairman's Report to Members

The past year has seen our business embed our new brand and build our brand awareness across our primary markets. We have also been progressing with Project IQ, our digital transformation project, as we look towards building a better banking future for our customers. I am particularly pleased that, with so many projects on the go, we have kept our focus on providing the best products and services for our customers, resulting in Qudos Bank being named Mozo's Home Loan Bank of the Year for 2017 (more on this in Scott's report).

Managing Growth

After an outstanding year of growth in the previous financial year, our expectations were high that growth would continue at record levels. However, strict macro prudential measures applied to all financial institutions by the Australian Prudential Regulation Authority (APRA) designed to improve housing affordability across the nation did impact our lending growth for the year. As a result, our growth slowed to 6.5% for the year, which had a material impact on profit.

In addition, as part of the implementation of the next phase of our digital transformation project, we took the opportunity to undertake a dormancy campaign to close the memberships of customers who were no longer actively banking with us. This resulted in the closure of approximately 9,000 memberships during the financial year. The benefit of this is that it means that we do not bear the costs of migration and administration of these inactive memberships – something that is good for all customers. Although we established 3,749 new memberships during the year, the dormancy activity meant that total memberships declined from 101,405 to 93,690.

Building a better future

In July 2015, we set out on a three-year journey to digitally transform our banking systems – the start of our commitment to delivering first-class technology to make banking easier and enable our customers to do more online.

The first phase, delivered in April 2016, saw a new mobile optimised company website, upgraded online banking and an improved product application process. The second phase, is all about improving the key channels you use to bank with us, including our mobile banking app – as well as upgrading the systems our employees rely on to give you the great service you have come to expect when visiting our branches or calling our Contact Centre.

The new technology launch will provide us a new banking platform to build on for years to come, so while we were hoping that we might launch the second phase in October 2017, we have extended the implementation period as it's important we get this right.

To keep up to date with our progress you can visit our website qudosbank.com.au/buildingabetterfuture.

Changes to the Board

In 2016 at our 57th Annual General Meeting a resolution was passed to reduce the number of Directors from 10 to 9, following the resignation of a Director in June 2016.

We'd like to congratulate our re-elected Directors David Hailes and Barry Phair.

Thanks!

On behalf of the board I'd like to thank you for acknowledging the work and contribution provided by the Directors, and approving the resolution to increase Directors' remuneration.

I also want to acknowledge the commitment and support our employees have displayed to all of the changes and improvements we have and will be making. I'm extremely proud of the way in which they have embraced these challenges.

Mark Boesen
Chairman

27th September 2017

Chief Executive Officer's

Report to Members

2017 has been a very busy year for Qudos. We have had to balance growing a new brand, adapting to market conditions, absorbing increasing regulator influence in lending activities and building a new banking system, all the while maintaining our normal business operations.

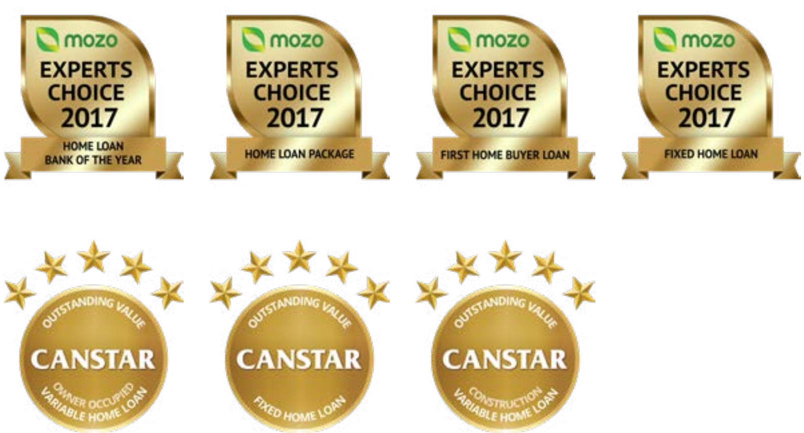
Financial Performance

The year was a challenging year. Surging prices in capital cities led APRA, our Bank Regulator, introducing more stringent rules on Banks to curb investment lending hence slowing growth in the housing sector. Despite ongoing market competition for mortgages, I'm pleased to say we still managed to grow our loan portfolio by 6.5% from $2.73 billion to $2.91 billion. Our deposits have also grown by 5.4% to $3.09 billion.

The impact of APRA's macro prudential mandates, investments in our technology project and the need to make modifications to our product range resulted in an end of year pre-tax profit result of $15.7 million and total assets of $3.52 billion.

Home Loan Bank of The Year

During the year, the Bank was recognised for the consistently great value that it offers within the home lending category. Mozo crowned Qudos Bank the Home Loan Bank of the Year, in June Money Magazine awarded us the runner up in the Home Lender of the Year Award. These overall awards were accompanied by a range of individual product awards, including Mozo's Experts Choice Awards for Home Loan Package, First Home Buyer Loan and Fixed Home Loan. We were also awarded Canstar's 5 star rating for our Low Cost Variable Home Loan, Fixed Rate Home Loan and Construction Variable Home Loan.



Our Commitment to better banking technology

As we continue to deliver value to our customers through product and pricing, particularly on our home loans, it's our commitment to technology which will help underpin our future growth.

Together with our technology partner Infosys, our people have been working tirelessly in the background to design and build a better banking platform. When fully delivered, you will enjoy greater control over how you interact with us. Our people will be greater empowered with better systems to deliver the service our customers expect.

Our project has been an enormous undertaking, and while I would like to thank all of you for your patience while this project is being delivered, I would particularly like to recognise the creativity, hard work and dedication of the many in Qudos who are bringing this project to life.

Brand Awareness

Our long term strategic investment in Qudos Bank Arena has seen brand awareness grow in NSW from almost zero to 28% over the course of the year. The growth in awareness of our brand is a key priority and we are continuing to pursue opportunities to build brand awareness across all states.

Our relationship with AEG Ogden, the operators of Qudos Bank Arena, means we will continue to reward our customers with complimentary tickets to not only NSW events but with affiliate arenas across Australia.

Qudos to you

To all of you, thank you for your patience and understanding as we prepare to make the move to our new technology future. This project is just one of the steps we're taking to build a better Bank for our customers and we thank you for being on this journey with us.

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.

Scott

Scott King
Chief Executive Officer

27th September 2017

Directors' Report

The Directors present their report together with the consolidated financial statements of the Qudos Bank Limited ("the Bank") and its subsidiary (together: "The Group") for the year ended 30 June 2017 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	Chairman Non–Executive Director	BBus, CPA FAMI, MAICD	62	- Director since 1992 - Chairman, Board - Chairman, Executive & Remuneration Committee - Chairman, Project iQ Oversight Committee - Member, Constitution Committee - Partner S&K Accounting Solutions - Formerly, Qantas General Manager Retirement Programs and Qantas Superannuation - Formerly, Director of Qantas Superannuation Limited, Constellation Capital Management Limited and SeQant Asset Management Pty. Limited
David Hailes	Deputy Chairman Non–Executive Director	MBA, FAMI, MAICD	74	- Director since 1993 - Deputy Chairman, Board - Chairman, Audit Committee - Member, Executive & Remuneration Committee - Member, Constitution Committee - Member, Project iQ Oversight Committee - Formerly, Qantas Manager Flight Operations Support
Colin Adams	Non-Executive Director	MAMI, MAICD	68	- Director since 2008 - Chairman, Constitution Committee - Member, Risk Committee - Director of • Columbia Securities Pty Ltd, • Columbia Superannuation (NSW) Pty Ltd - Formerly, Director Interrelate Ltd
Sarah Collins	Non-Executive Director	BEc, LLB, MAMI	51	- Director since 2001 - Member, Audit Committee - Counsel – Ashurst Australia - Formerly, Qantas General Manager Legal - Formerly, Special Counsel – DLA Piper Australia

Name	Position	Qualifications	Age	Experience & Responsibilities
Gary Halliday	Non-Executive Director	FIPA, FFA, FAMI, MAICD JP	69	- Director since 2004 - Member, Audit Committee - Member, Risk Committee - Member, Project iQ Oversight Committee - Formerly, General Manager Qantas Staff Credit Union Limited
Joshua Hatten	Non-Executive Director	MSc, BLaws(Hons) BEcSocSci Grad Dip LP MAMI, GAICD	33	- Director since 2011 - Member, Audit Committee - Member, Constitution Committee - Director, Mortgage Finance Association of Australia (MFAA) - Chairman, Nominations, Remuneration & Governance Committee, Mortgage Finance Association of Australia (MFAA) - Formerly Chief of Staff, Office of NSW Education Minister - Formerly Director, ACON Health Ltd - Formerly Chairman Finance and Audit Committee, ACON Health Ltd
Barry Jackson	Non-Executive Director	BAv, MAICD	56	- Director since 2015 - Member, Audit Committee - Member, Australian International Pilots' Association, AIPA
Teresa McAdam	Non-Executive Director	BComm, CPA, GAICD MAMI	54	- Director since 2014 - Chairman, Risk Committee - Member, Executive Remuneration Committee - Member, Constitution Committee - General Manager Funding & Leasing, Virgin Australia - Formerly, Qantas Manager Capital Markets
Barry Phair	Non-Executive Director	FCPA, FAMI, MAICD	72	- Director since 1990 - Member, Executive & Remuneration Committee - Member, Risk Committee - Member Project iQ Oversight Committee - Former Deputy Chairman - Former Chairman, Risk Committee - Formerly, Qantas General Manager Fleet & Long term Network Planning - Formerly, Qantas Strategic Planning Director - Formerly, Qantas Deputy Treasurer

Directors' Report (continued)

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, MAMI	50	- Company Secretary since 24 April 2007 - General Counsel and Company Secretary, Qudos Mutual Limited
Michael Anastasi	CA, B Comm, MAMI	46	- Company Secretary since 25 September 2007 - Chief Financial 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**
C. Adams	11	11	8	8
M. P. Boesen	11	11	14	14
S. C. Collins	11	11	4	4
D. L. Hailes	11	11	17	17
G. Halliday	11	11	17	17
J. Hatten	11	11	5	5
B. Jackson	11	9	4	4
T. McAdam	11	11	10	10
B. G. Phair	11	10	17	17

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

Directors' Report (continued)

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 2017 financial year was $15.68 million (2016: $20.28 million), reducing to $11.01 million (2016: $14.22 million) after providing $4.67 million (2016: $6.05 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.

Review of Operations

Total assets at year end were $3,522.27 million, representing an increase of $175.19 million, or 5.23% over the previous year. Included in total assets are Member loans and advances of $2,905.94 million, having risen by $178.32 million or 6.54%. Deposits increased by $157.66 million, or 5.38% to $3,087.28 million at year end. Total Member's equity at year end was $254.79 million,an increase of $16.44 million, or 6.90%. Continued Member support together with increased 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 $63,699 (2016: $63,699) 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 14 and forms part of the Directors' report for financial year ended 30 June 2017.

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
Chairman

David Hailes
Deputy Chairman

Sydney
27th September 2017

Back row: Teresa McAdam, Barry Phair, Gary Halliday, Colin Adams, Barry Jackson, Mark Boesen,
Front row: Sarah Collins, Joshua Hatten and David Hailes.

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 2017 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

Michael O Connell
Partner
Sydney
27th September 2017

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.

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.

Statement of Principles

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.

Corporate Governance Statement (continued)

Statement of Principles (continued)

The Board currently has the following Committees:

Committee	Role
Executive & 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.
Project iQ Oversight Committee	Provides oversight and monitoring of the Bank's core banking system replacement project; comprises 4 Directors and 2 Senior Executives.
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 the day-to-day management of the Bank.

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.

As at 30 June 2017, the Bank gender diversity split was 66% female and 34% male. The Board was 22% female and 78% male. As we move through to Senior Executive it was 14% female and 86% male and Management was 47% female and 53% 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 Committee's 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 Executive & 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 Bank currently has 9 Directors, following a Member resolution at the 2016 AGM approving a reduction in the size of the Board from 10 to 9. The Bank's Board is relatively large, with many comparable financial institutions having a Board size of 7 or 8. The Board can increase the number of Directors to the maximum under the Constitution infuture, if necessary to fulfil its obligations.

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.

The overriding principle to which the Board has regard in relation to the structure of the Board is that all 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 Chairman of the Board and Chairman 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.

Corporate Governance Statement (continued)

Statement of Principles (continued)

Act ethically and responsibly

In making its decisions, the Bank not only complies with it's 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.

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 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 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.

Respect the rights of Members

Respect the rights of security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

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

- Governance statement;
- Constitution; and
- other corporate information, including annual reports, notices of meetings and regulatory disclosures.

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 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.

Remunerate fairly and responsibly

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

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 Banks's long-term financial soundness and risk management framework. 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 and remuneration of executive employees.

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 23 to 66 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 2017 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 2017.

Signed in accordance with a resolution of the Directors:

Mark Boesen,
Chairman

David Hailes,
Deputy Chairman

Sydney
27th September 2017

Independent Auditor's Report

To the members of Qudos Mutual Limited

Report on the audit of the Financial Report

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 2017 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 2017
- 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 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.

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; and
- assessing the Group's ability to continue as a going concern. 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 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 this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http:/www.auasb.gov.au/auditors_files/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Michael O Connell
Partner
Sydney
27th September 2017

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2017

	Note	2017 $000	2016 $000
Interest revenue	2.a	131,674	132,449
Interest expense	2.b	(69,541)	(72,157)
Net interest income		**62,133**	**60,292**
Other income	2.c	11,368	11,673
Total operating income		**73,501**	**71,965**
Non interest expenses			
Impairment losses on loans and advances	2.d	(1,067)	(844)
Other expenses	2.e	(56,752)	(50,845)
Profit before income tax		**15,682**	**20,276**
Income tax expense	3	(4,668)	(6,053)
Profit after income tax		**11,014**	**14,223**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Net fair value (loss)/gain on available for sale financial assets, net of tax	18	4,808	(585)
Net movement on cash flow hedge, net of tax		615	(595)
Total comprehensive income		**16,437**	**13,043**

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 27 to 66.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Note	Capital Reserve $000	General Reserve for Credit Losses $000	Cash Flow Hedge Reserve $000	Available for Sale Reserve $000	Retained Profits $000	Total $000
Total as at 1 July 2015		**324**	**7,277**	**(355)**	**1,606**	**216,454**	**225,306**
Profit for the year	19	-	-	-	-	14,223	14,223
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Net fair value gain/(loss) on available for sale financial assets, net of tax		-	-	-	(585)	-	(585)
Net movement on cash flow hedge, net of tax		-	-	(595)	-	-	(595)
Transfers to/(from) Reserves	18	12	958	-	-	(970)	-
Total as at 30 June 2016		**336**	**8,235**	**(950)**	**1,021**	**229,707**	**238,349**
Profit for the year	19	-	-	-	-	11,014	11,014
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Net fair value gain on available for sale financial assets, net of tax		-	-	-	4,808	-	4,808
Net movement on cash flow hedge, net of tax		-	-	615	-	-	615
Transfers to/(from) Reserves	18	40	(129)	-	-	89	-
Total as at 30 June 2017		**376**	**8,106**	**(335)**	**5,829**	**240,810**	**254,786**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements set out on pages 27 to 66.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 $000	2016 $000
ASSETS			
Cash and cash equivalents	4	101,249	82,798
Receivables	5	3,182	3,899
Held to Maturity Financial Instruments	6	45,263	122,695
Loans and advances to Members	7	2,905,943	2,727,621
Available for Sale Assets	9	437,130	391,414
Derivative Asset	28	6	-
Plant and equipment	10.a	7,661	3,200
Intangibles	10.b	914	3,473
Prepayments & Debtors	11	20,423	9,796
Current Tax Asset	16	372	-
Deferred Tax Assets	12	123	2,178
TOTAL ASSETS		**3,522,266**	**3,347,074**
LIABILITIES			
Payables to other Financial Institutions	13	152,459	164,278
Deposits	14	3,087,283	2,929,622
Creditor accruals and settlement accounts	15	24,238	10,161
Derivative liability	28	485	1,358
Current tax liability	16	-	358
Provisions	17	3,015	2,948
TOTAL LIABILITIES		**3,267,480**	**3,108,725**
NET ASSETS		**254,786**	**238,349**
MEMBERS' EQUITY			
Reserves	18	**13,976**	**8,642**
Retained earnings	19	**240,810**	**229,707**
TOTAL MEMBERS' EQUITY		**254,786**	**238,349**

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements set out on pages 27 to 66.

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 $000	2016 $000
OPERATING ACTIVITIES			
Interest received		132,905	134,921
Fees and commissions received		11,426	11,660
Dividends received		-	-
Interest paid		(68,935)	(73,376)
Cash paid to suppliers and employees		(46,243)	(45,680)
Income taxes paid		(6,363)	(6,047)
Net increase in Member loans		(179,389)	(523,800)
Net increase in deposits and shares		154,692	206,832
Net decrease in receivables from other financial institutions		38,585	279,478
Net cash from/(used in) operating activities	**27b**	**36,678**	**(16,012)**
INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment		106	79
Purchase of property plant and equipment		(6,813)	(1,325)
Purchase of Investments		-	(168)
Purchase of intangibles and work in progress		(11,520)	(4,308)
Net cash used in investing activities		**(18,227)**	**(5,722)**
Total net cash increase/(decrease)		**18,451**	**(21,734)**
Cash at beginning of year		82,798	104,532
Cash and cash equivalents at end of year	**27a**	**101,249**	**82,798**

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements set out on pages 27 to 66.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2017

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 2020. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 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 2017 (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 27th September 2017.

(ii) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for Available for Sale assets which are included at fair value.

(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(d) – Loan Impairment

1(j) – Financial Instruments

21 – Fair Value of financial assets and liabilities

(v) Changes in accounting policies

There have been no changes in accounting policy during the year.

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 to Members

(i) Basis of inclusion

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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 less any impairment losses. 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.

(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. Loan Impairment

(i) Specific Provision

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment, status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. Impairment losses are calculated on individual loans. The amount provided for impairment is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

(ii) Collective Provision

A collective provision is made for groups of loans with similar credit risk characteristics. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is based upon estimated losses incurred within the portfolio, based upon objective evidence of impairment, the estimated probability of default and the expected loss given default having regard to the historical experience of the Group. The provision increase or decrease is recognised in the profit or loss.

(iii) General Reserve for Credit Losses

In addition to the above provisions, the Group will maintain a general reserve for credit losses of at least 0.5%, but no more than 1.25% of total risk weighted assets (as defined in APS 112 Capital Adequacy: Credit Risk).

e. Bad Debts Written Off

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off as expenses in the profit or loss or against the provision for impairment.

f. 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.

g. 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.

h. 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.

i. Advances to Other Financial Institutions

Receivables from other financial institutions include loans, bank accepted bills of exchange, certificates of deposit, floating rate notes and settlement account balances due from other banks. They are brought to account at the gross value of the outstanding balance. Interest on receivables due from other financial institutions is recognised on an effective yield basis.

j. Financial Instruments

The Group utilises a range of financial instruments. Financial instruments are classified and measured as follows:

Loans and advances: This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost; refer Note 1(c) Loans to Members for further details.

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.

Investments in shares which do not have a quoted market price in an active market and are not capable of being reliably valued are measured at cost less any provision for impairment.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Other Financial Liabilities: These financial liabilities are measured at fair value plus direct acquisition costs and subsequently measured at amortised cost using the effective interest method. When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date (repurchase agreement), the financial assets sold under such agreements continue to be recognised in the statement of financial position and the obligation to repurchase is recognised as deposits and short term borrowings. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Derivative financial instruments and hedge accounting: 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.

k. 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.

l. Borrowings

The Group initially recognises deposits, loans and borrowings on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) 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.

m. 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.

n. 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.

o. 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.

p. 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.

q. 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.

r. 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.

s. 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.

t. 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.

u. Other Trade and Other Receivables

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

v. 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.

w. 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.

x. 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.

y. 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.

z. New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on after 1 January 2018, with early adoption permitted. An assessment of the new standard is ongoing, with a potential change expected in the provision for calculation of impaired loans.

AASB 15 requires mandatory application by the Group for the financial year ended 30 June 2019, however is available for early adoption. On initial application, AASB 15 permits either full retrospective or a modified retrospective application approach. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15 however it is not expected to have a material impact on the Group.

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 currently assessing the potential impact on its consolidated financial statements resulting from the application of AASB 16 however it is not expected to have a material impact on the Group.

2. Statement of Profit or Loss and Other Comprehensive Income

		2017 $000	2016 $000
	Analysis of interest revenue		
a.	**Category of interest bearing assets**		
	Loans and advances to Members	118,634	112,011
	Investment Securities	9,438	15,077
	Call Deposits with other Financial Institutions	1,176	1,614
	Term Deposits with other Financial Institutions	1,902	3,150
	Regulatory Deposits	524	597
	TOTAL INTEREST REVENUE	**131,674**	**132,449**
b.	**Category of interest bearing liabilities**		
	Deposits	69,516	72,148
	Bank Overdraft	25	9
	TOTAL INTEREST EXPENSE	**69,541**	**72,157**
c.	**Other Income**		
	Fees and Commissions	11,117	11,191
	Dividends received	-	169
	Bad debts recovered	251	279
	Gain on disposal of property, plant and equipment	-	34
	TOTAL OTHER INCOME	**11,368**	**11,673**
d.	**Impairment losses on loans and advances**		
	Bad debts written off directly against profit	1,102	766
	Addition/(Release) to provision for doubtful debts	(35)	78
	TOTAL IMPAIRMENT LOSSES ON LOANS & ADVANCES	**1,067**	**844**

	2017 $000	2016 $000
e. Other Expenses		
Salaries and on costs	17,477	16,020
Superannuation costs	1,332	1,223
Transaction costs	13,864	12,839
Information technology	5,536	5,121
Insurance and legal	585	459
Directors remuneration	599	608
Depreciation of plant and equipment	2,196	1,494
Amortisation of intangibles	2,718	1,058
Amounts set aside to provisions:		
Employee entitlements	730	697
Rental – operating leases	2,544	1,567
Research & Development costs expensed	819	525
Supervision levies	160	148
Marketing costs	4,599	5,942
Loss on disposal of property, plant and equipment	50	-
Other costs	3,543	3,144
TOTAL OTHER EXPENSES	**56,752**	**50,845**

f. Auditor's Remuneration	2017 $	2016 $
Statutory Audit	168,107	165,622
Regulatory Audits	85,955	79,011
Subtotal	**254,062**	**244,633**
Non Audit Services	-	25,110
TOTAL	**254,062**	**269,743**

3. Income Tax Expense

	2017 $000	2016 $000
a. Current tax expense		
Current year	4,980	6,246
Prior year over/(under) provision for current tax	204	(372)
Deferred Tax Expense		
Prior year under/(over) provision for deferred tax	(204)	372
Decrease in deferred tax asset	(312)	(193)
TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT	**4,668**	**6,053**

b. Reconciliation between Tax Expense and Pre Tax Net Profit

	2017 $000	2016 $000
Profit before tax	**15,682**	**20,276**
Income tax using the Company tax rate of 30%	4,705	6,083
Tax effect of expenses/income		
- Other non-deductible expenses	(37)	42
- Rebatable dividend imputation credits	-	(72)
INCOME TAX EXPENSE ATTRIBUTABLE TO PROFIT	**4,668**	**6,053**

4. Cash and Cash Equivalents

	2017 $000	2016 $000
Cash on hand	607	699
Deposits at call		
Cash at Bank	74,122	40,699
Other Financial Institutions	6,520	8,900
Other Authorised Deposit-taking Institutions	20,000	32,500
TOTAL CASH AND CASH EQUIVALENTS	**101,249**	**82,798**

5. Receivables

	2017 $000	2016 $000
Interest receivable	1,406	2,065
Sundry debtors and settlement accounts	1,776	1,834
TOTAL RECEIVABLES	**3,182**	**3,899**
Maturity Analysis		
Not longer than 3 months	1,917	2,633
3 to 12 months	1,265	1,266
	3,182	**3,899**

6. Held to Maturity Financial Instruments

	2017 $000	2016 $000
Deposits with other Authorised Deposit-taking Institutions	45,263	122,695
TOTAL HELD TO MATURITY FINANCIAL INSTRUMENTS	**45,263**	**122,695**
Maturity Analysis		
Not longer than 3 months	15,498	92,930
3 to 12 months	29,765	29,765
	45,263	**122,695**
Fair Value		
Deposits with other Authorised Deposit-taking Institutions	45,267	122,721
	45,267	**122,721**

7. Loans and Advances

	2017 $000	2016 $000
Amount due comprises		
Overdrafts and revolving credit	46,516	50,022
Term loans	2,860,892	2,679,099
Subtotal	**2,907,408**	**2,729,121**
Less:		
Provision for impaired loans (Note 8)	(1,465)	(1,500)
TOTAL LOANS AND ADVANCES	**2,905,943**	**2,727,621**
Maturity analysis – gross loans and advances		
Not longer than 3 months	63,997	62,376
Longer than 3 months and not longer than 12 months	80,429	42,022
Longer than 1 year and not longer than 5 years	594,227	517,683
Longer than 5 years	2,168,755	2,107,040
	2,907,408	**2,729,121**

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 $517,643,520 (30 June 2016: $674,203,307).

8. Provision on Impaired Loans

		2017 $000	2016 $000
a.	**Total Provision Comprises**		
	Specific provisions	-	-
	Collective provisions	1,465	1,500
	TOTAL PROVISION	**1,465**	**1,500**
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	1,500	1,422
	Increase/(decrease) in provision	(35)	78
	Collective provision balance at end of year	**1,465**	**1,500**
d.	**Impaired Loans Written Off**		
	Amounts written off directly to expense	1,102	766
	Total bad debts	**1,102**	**766**
	Bad debts recovered in the period	251	279
	Total bad debts recovered	**251**	**279**

9. Available for Sale Financial Instruments

	2017 $000	2016 $000
Shares in unlisted corporations		
Indue Limited	11,451	5,794
Other securities:		
Bank issued certificates of deposit	186,700	172,892
Floating rate notes	238,979	212,728
TOTAL AVAILABLE FOR SALE FINANCIAL INSTRUMENTS	**437,130**	**391,414**
Maturity Analysis		
Not longer than 3 months	186,700	177,483
3 to 12 months	89,696	71,646
1-5 years	149,283	136,491
No maturity	11,451	5,794
	437,130	**391,414**
Fair Value		
Bank issued certificates of deposit	186,700	172,892
Floating rate notes	238,979	212,728
Shares in Indue	11,451	5,794
	437,130	**391,414**

Indue Limited

The financial assets designated as available for sale (AFS) at 30 June 2017 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.

The AFS investment is categorised at Level 3 in the fair value hierarchy given the unobservability of the valuation variables.

10a. Plant and Equipment

	2017 $000	2016 $000
Leasehold property improvements - at cost	8,619	7,798
Less: provision for depreciation	(4,505)	(6,465)
	4,114	1,333
Office furniture and equipment - at cost	2,274	870
Less: provision for depreciation	(535)	(436)
	1,739	434
Computer equipment - at cost	3,644	2,816
Less: provision for depreciation	(2,648)	(2,330)
	996	486
Motor vehicles - at cost	1,223	1,269
Less: provision for depreciation	(411)	(322)
	812	947
TOTAL PLANT AND EQUIPMENT – NET BOOK VALUE	**7,661**	**3,200**

Movement in the assets balances during the year were:

	2017		2016	
Plant & Equipment	**Leasehold improvements $000**	**Other plant & equipment $000**	**Leasehold improvements $000**	**Other plant & equipment $000**
Opening balance	1,333	1,867	1,965	1,483
Purchases	3,704	3,109	10	1,315
Transfers	-	-	128	(128)
Less:				
Assets disposed	(33)	(123)	-	(79)
Depreciation charge	(890)	(1,306)	(770)	(724)
Balance at the end of the year	**4,114**	**3,547**	**1,333**	**1,867**

10b. Intangibles

	2017 $000	2016 $000
Computer Software - at cost	10,311	10,152
Less: provision for amortisation	(9,397)	(6,679)
TOTAL INTANGIBLES	**914**	**3,473**

Movement in the Intangibles balances during the year were:

	2017 $000	2016 $000
Computer Software		
Opening balance	3,473	223
Purchases	159	4,308
Less:		
Assets disposed	-	-
Amortisation charge	(2,718)	(1,058)
Balance at the end of the year	**914**	**3,473**

11. Prepayments & Debtors

	2017 $000	2016 $000
Prepayments	3,563	3,197
Debtors	25	25
Capitalised Expenses	16,835	6,574
TOTAL PREPAYMENTS & DEBTORS	**20,423**	**9,796**
Maturity Analysis		
Less than 12 months	18,242	4,318
Greater than 12 months	2,181	5,478
	20,423	**9,796**

12. Deferred Tax

	2017 $000	2016 $000
Net Deferred Tax Asset/(Liability)	**123**	**2,178**
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	440	450
- Provisions for employee benefits not currently deductible	905	816
- Provisions for Makegood	10	87
- Other accruals	666	398
- Fixed assets	458	459
- Financial Instruments	145	585
	2,624	**2,795**
Deferred Tax Liabilities		
- Financial Instruments	(2,501)	(617)
	(2,501)	**(617)**
NET DEFERRED TAX ASSETS	**123**	**2,178**

13. Payables Due to Other Financial Institutions

	2017 $000	2016 $000
Electronic Certificates of Deposits issued	152,459	164,278
TOTAL PAYABLES TO OTHER FINANCIAL INSTITUTIONS	**152,459**	**164,278**
Maturity analysis		
Not longer than 3 months	121,349	129,205
Longer than 3 and not longer than 6 months	30,135	35,073
Longer than 6 and not longer than 12 months	975	-
	152,459	**164,278**

14. Deposits

	2017 $000	2016 $000
Deposits		
- Call deposits	2,094,102	2,097,190
- Superannuation Savings Accounts	255,568	274,986
- Term deposits	736,921	556,714
Total deposits	**3,086,591**	**2,928,890**
Member withdrawable shares	692	732
TOTAL DEPOSITS & SHARES	**3,087,283**	**2,929,622**
Maturity analysis		
At call	2,350,361	2,372,907
Not longer than 3 months	287,230	254,294
Longer than 3 and not longer than 6 months	212,047	152,880
Longer than 6 and not longer than 12 months	123,897	81,734
Longer than 12 months and not longer than 5 years	113,748	67,807
	3,087,283	**2,929,622**

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

	2017 $000	2016 $000
Creditors and accruals	7,977	3,975
Interest payable on deposits	6,282	5,106
Sundry creditors	9,979	1,080
TOTAL CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS	**24,238**	**10,161**

16. Taxation Assets and Liabilities

	2017 $000	2016 $000
Current income tax (asset)/liability	(372)	358
TOTAL TAXATION (ASSET)/LIABILITIES	**(372)**	**358**
Current income tax liability comprises:		
Balance – previous year	358	27
Income tax paid	(6,363)	(6,047)
RSA tax liability	449	504
Liability for income tax in current year	4,980	6,246
(Over)/Understatement in prior year	204	(372)
	(372)	**358**

17. Provisions

	2017 $000	2016 $000
Employee entitlements	3,015	2,720
Provision for Makegood	-	228
TOTAL PROVISIONS	**3,015**	**2,948**
Provisions movements		
Employee Entitlements		
Balance – previous year	2,720	2,253
Less amounts paid	(412)	(230)
Increases in provision	707	697
Closing balance	**3,015**	**2,720**
Other		
Balance – previous year	228	848
Increase/(Decrease) in provision	(228)	(620)
Closing balance	**-**	**228**

18. Reserves

	2017 $000	2016 $000
Capital Reserve Account	376	336
General Reserve for Credit Losses	8,106	8,235
Cash Flow Hedge Reserve	(335)	(950)
Available for Sale Reserve	5,829	1,021
TOTAL RESERVES	**13,976**	**8,642**
Capital Reserve Account		
Balance at the beginning of the year	336	324
Transfer from retained earnings on share redemptions	40	12
Balance at the end of year	**376**	**336**

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.

	2017 $000	2016 $000
General Reserve for Credit Losses		
Balance at the beginning of the year	8,235	7,277
Add: increase/(decrease) transferred from retained earnings	(129)	958
Balance at end of year	**8,106**	**8,235**

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

	2017 $000	2016 $000
Cash Flow Hedge Reserve		
Balance at the beginning of the year	(950)	(355)
Movement of cash flow hedge	878	(850)
Effect of tax	(263)	255
Balance at end of year	**(335)**	**(950)**

	2017 $000	2016 $000
Available for Sale Reserve		
Balance at the beginning of the year	1,021	1,606
Fair value gain/(loss) on available for sale financial assets	6,869	(836)
Effect of Tax	(2,061)	251
Balance at end of year	**5,829**	**1,021**

19. Retained Earnings

	2017 $000	2016 $000
Retained profits at the beginning of the financial year	229,707	216,454
Add: operating profit for the year	11,014	14,223
Less: Transfer to reserve for credit losses in year	129	(958)
Less: Transfer to capital account on redemption of shares	(40)	(12)
Retained profits at the end of the financial year	**240,810**	**229,707**

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.

2017	Up to 3 months $000	Up to 12 months $000	1-5 years $000	Non interest bearing $000	Total $000
ASSETS					
Cash	100,642	-	-	607	**101,249**
Receivables	-		-	3,182	**3,182**
Available for sale assets:					
Shares in Indue Ltd	-	-	-	11,451	**11,451**
Certificates of deposit	186,700	-	-	-	**186,700**
Floating rate notes	238,979	-	-	-	**238,979**
Authorised deposit taking institutions	15,498	29,765	-	-	**45,263**
Loans & advances	2,674,927	19,841	211,175	-	**2,905,943**
Derivative Asset	6	3	(3)	-	**6**
Total Assets	**3,216,752**	**49,609**	**211,172**	**15,240**	**3,492,773**
LIABILITIES					
Payables to other FIs	152,459	-	-	-	**152,459**
Deposits	2,636,900	335,944	113,747	-	**3,086,591**
Redeemable Preference Shares	-	-	-	692	**692**
Payables	-	-	-	6,282	**6,282**
Derivative Liability	115	295	75	-	**485**
Total Liabilities	**2,789,474**	**336,239**	**113,822**	**6,974**	**3,246,509**

20. Interest Rate Change Profile of Financial Assets and Liabilities (continued)

2016	Up to 3 months $000	Up to 12 months $000	1-5 years $000	Non interest bearing $000	Total $000
ASSETS					
Cash	82,099	-	-	699	**82,798**
Receivables	-		-	3,899	**3,899**
Available for sale assets:					
Shares in Indue Ltd	-	-	-	5,794	**5,794**
Certificates of deposit	172,892	-	-	-	**172,892**
Floating rate notes	212,728	-	-	-	**212,728**
Authorised deposit taking institutions	92,930	29,765	-	-	**122,695**
Loans & advances	2,547,796	46,169	133,656	-	**2,727,621**
Total Assets	**3,108,445**	**75,934**	**133,656**	**10,392**	**3,328,427**
LIABILITIES					
Payables to other FIs	164,278	-	-	-	**164,278**
Deposits	2,626,468	234,614	67,808	-	**2,928,890**
Redeemable Preference Shares	-	-	-	732	**732**
Payables	-	-	-	5,106	**5,106**
Derivative Liability	49	173	1,136	-	**1,358**
Total Liabilities	**2,790,795**	**234,787**	**68,944**	**5,838**	**3,100,364**

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.

	2017			2016		
	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	11,451	11,451	Level 3	5,794	5,794	Level 3
Certificates of deposit	186,700	186,700	Level 2	172,892	172,892	Level 2
Floating rate notes	238,979	238,979	Level 2	212,728	212,728	Level 2
Authorised deposit taking institutions	45,267	45,263	Level 2	122,721	122,695	Level 2
Derivative Asset	6	6	Level 2			
Loans & advances	2,906,202	2,905,943	Level 2	2,726,047	2,727,621	Level 2

	2017			2016		
FINANCIAL LIABILITIES						
Payables to Other FI's	152,854	152,459	Level 2	165,084	164,278	Level 2
Deposits	3,086,682	3,086,591	Level 2	2,929,195	2,928,890	Level 2
Derivative liability	485	485	Level 2	1,358	1,358	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 2017.

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 2017. 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 2015	5,625
Net change in fair value recognised in OCI	169
Balance at 30 June 2016	5,794
Balance at 1 July 2016	5,794
Net change in fair value recognised in OCI	5,657
Balance at 30 June 2017	11,451

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

	2017 $000	2016 $000
a. Outstanding Loan Commitments		
Loans approved but not funded	**86,748**	**94,753**
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	**42,864**	**44,181**
There are no restrictions as to the utilisation of such overdraft facilities.		
c. Outstanding Line of Credit Commitments		
Member line of credit facilities approved but not funded	**-**	**35,242**
These facilities are subject to the availability of funds.		
d. Outstanding Credit Card Commitments		
Member credit card facilities approved but not funded	**72,427**	**77,256**
e. Loan Redraw Facilities		
Loan Redraw facilities available	**259,178**	**321,697**
f. Future Lease Rental Commitments		
Operating lease payments under existing lease arrangements for building accommodation, are payable over the following periods:		
Within 1 year	2,432	2,280
Later than 1 year but not later than 5 years	8,166	8,086
Over 5 years	8,085	10,549
	18,683	**20,915**

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.

g. Material Contracts

The Group has the following commitments as at year end predominantly relating to IT related projects and a contract with Data Action Pty. Ltd. who provide computer facilities, management services and associated support services.

	2017 $000	2016 $000
Within 1 year	695	2,631
Later than 1 year but not 5 years	-	2,500
	695	**5,131**

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:

2017	Gross $000	Current Borrowing $000	Net Available $000
Unsecured Overdraft	11,100	-	11,100
TOTAL STANDBY BORROWING FACILITIES	**11,100**	**-**	**11,100**

2016	Gross $000	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 (2016: 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:

	2017 $	2016 $
(a) Short-term employee benefits	2,014,486	1,959,518
(b) Post-employment benefits – superannuation contributions	183,460	176,405
(c) Other long-term benefits	205,861	198,719
Total	**2,403,987**	**2,334,642**

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.

b Loans to Key Management Personnel

	2017 $	2016 $
(i) The aggregate value of loans to key management personnel as at balance date amounted to	**8,850,035**	**7,847,605**
(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	518,287	848,421
Term Loans	4,155,369	3,318,681
	4,673,656	**4,167,102**
(iv) During the year the aggregate value of repayments received amounted to:	**3,949,703**	**5,889,670**
(v) Interest and other revenue earned on Loans and revolving credit facilities to KMP	**279,229**	**348,474**

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 Personnel. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

c. Other transactions between related parties including deposits from Key Management Personnel are:

	2017 $	2016 $
Total value term and savings deposits from KMP	**2,788,371**	**3,880,145**
Total Interest paid on deposits to KMP	**52,474**	**86,553**

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.

	2017 Number	2016 Number
b. Total Membership	**93,690**	**101,405**
of which fully paid	68,998	73,035
of which uncalled	24,692	28,370

Note: Includes dormancy run of 8,820 accounts during 2017.

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, for permanent employees other employer contributions to the Plan. Employees may also contribute between 4% and 10% of their salary to the Plan, depending on their age or by election. 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 $1,380,881 to the Plan during the 2017 financial year, ($1,273,250 in 2016). No contributions were outstanding as at 30 June 2017.

27. Notes to Statement of Cash Flows

		2017 $000	2016 $000
a.	**Reconciliation of Cash and Cash equivalents**		
	For the purpose of the Statement of Cash Flow, cash includes:		
	Cash on hand	607	699
	Deposits at call	94,122	73,199
	Other Authorised Deposit-taking Institutions	6,520	8,900
	Total Cash and Cash Equivalents	**101,249**	**82,798**
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	11,014	14,223
	Add/(Deduct):		
	Bad debts written off	1,102	766
	Depreciation & amortisation expense	4,914	2,552
	(Decrease)/increase in provision for impairment	(35)	78
	(Decrease)/increase in provisions for employee entitlements	295	467
	(Decrease)/increase in other provisions	(228)	(620)
	(Decrease)/increase in provision for income tax	(730)	331
	(Increase)/decrease in net deferred tax assets	2,055	(663)
	(Decrease) in interest payable	1,177	(1,065)
	Increase in creditors and other liabilities	1,342	394
	(Increase)/decrease in prepayments	1,100	(6,944)
	(Increase)/decrease in sundry debtors	75	9,641
	(Increase)/decrease in interest receivable	659	2,318
	(Increase) in Member loans	(179,389)	(523,800)
	Increase in deposits and shares	154,692	206,832
	Loss on Property, Plant and Equipment	50	-
	(Increase) in receivables from other financial institutions	38,585	279,478
	Net Cash From Operating Activities	**36,678**	**(16,012)**

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);
  - Financial reporting risk (the risk of material error in the financial statements);
  - 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 Chairman of the Board cannot be Chairman of the Audit Committee.

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.

28. Financial Risk Management (continued)

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 5% of the Group's consolidated capital base;
- 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.

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.

Exposure to credit risk – loans and advances to Members

	2017 $000	2016 $000
Carrying amount	**2,905,943**	**2,727,621**
Collectively impaired – mortgage loans		
90 days & less than 182 days	-	-
182 days & less than 273 days	-	-
Greater than 273 days	232	-
Carrying amount	**232**	-
Collectively impaired – personal loans		
30 days & less than 60 days	330	595
60 days & less than 90 days	188	226
90 days & less than 182 days	252	295
182 days & less than 273 days	78	126
273 days & less than 365 days	36	56
Greater than 365 days	49	6
Carrying amount	**933**	**1,304**
Overdrawn/Overlimit		
14 days & less than 90 days	178	255
90 days & less than 182 days	31	137
182 days & over	138	104
Carrying amount	**347**	**496**
Gross Amount – Collectively Impaired	**1,280**	**1,800**
Past due but not impaired		
30 days & less than 60 days	3,973	3,804
60 days & less than 90 days	266	944
90 days & less than 182 days	3,118	3,085
182 days & less than 365 days	2,199	1,254
Carrying amount	**9,556**	**9,087**
Neither past due nor impaired	**2,896,340**	**2,718,234**
Specific Provision	-	-
Collective Provision	(1,465)	(1,500)
Carrying amount	**2,905,943**	**2,727,621**

28. Financial Risk Management (continued)

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.

Allowances for impairment
The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is the collective loan loss allowance established for the Group in respect of loan losses that have been incurred but have not been identified, subject to individual assessment for impairment.

Write-off policy
Bad debts are written off as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off as expenses in the profit or loss or against the provision for impairment, if a provision for impairment had previously been recognised.

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

	2017 $000	2016 $000
Past due but not impaired	9,556	9,087
Collateral – Property	**9,556**	**9,087**
Collectively impaired – mortgage loans	232	-
Collateral – Property	**232**	-

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 2017, the Group took possession of nil collateral (30 June 2016: nil).

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

	2017 $000	2016 $000
Residential loans	2,825,194	2,627,887
Personal loans	82,214	101,234
Total gross loans	**2,907,408**	**2,729,121**

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

	2017 $000	2016 $000
Short Term Rating (Standard and Poors)		
A1	293,174	264,814
A2	242,836	289,509
Unrated (Indue Limited)	36,360	38,749
Total	**572,370**	**593,072**

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 modelled 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% (2016:11.5%) of funds as liquid assets to maintain adequate funds for meeting daily cash flow needs. A trigger level of 13% (2016:13%) 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.

28. Financial Risk Management (continued)

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

	2017 $000	2016 $000
High quality liquid assets	530,569	475,239
Total Liabilities Base	**3,613,405**	**3,525,325**
Liquidity Ratio	**15.13%**	**16.37%**
MLH Ratio	**14.68%**	**13.48%**

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

30 June 2017	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 Institutions	13	152,459	152,459	42,298	79,051	31,110	-
Deposits	14	3,087,283	3,098,942	2,455,348	201,318	374,131	68,145
Creditors and accruals	15*	17,956	17,956	15,662	-	-	2,294
Derivative Liability		485	483	37	78	299	69
Subtotal		**3,258,183**	**3,269,840**	**2,513,345**	**280,447**	**405,540**	**70,508**
Off Statement of Financial Position							
Commitments to extend credit	22	86,748	86,748	86,748	-	-	-
Total		**3,344,931**	**3,356,588**	**2,600,093**	**280,447**	**405,540**	**70,508**

30 June 2016	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 Institutions	13	164,278	164,278	21,857	107,348	35,073	-
Deposits	14	2,929,622	2,937,138	2,461,580	169,475	246,244	59,839
Creditors and accruals	15*	5,055	5,055	5,055	-	-	-
Derivative Liability		1,358	1,416	42	102	336	936
Subtotal Off Statement of Financial Position		**3,100,313**	**3,107,887**	**2,488,534**	**276,925**	**281,653**	**60,775**
Commitments to extend credit	22	573,128	573,128	573,128	-	-	-
Total		**3,673,441**	**3,681,015**	**3,061,662**	**276,925**	**281,653**	**60,775**

* excluding interest payable and PAYG tax

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 optimising 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.

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

	2017 (% of Capital)	2016 (% of Capital)
At 30 June	0.19%	0.61%

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:

	2017 (% of Capital)	2016 (% of Capital)
At 30 June	4.38%	5.02%

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 2017 the Group recognised a profit of $nil (2016: $650), 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 2017 the Group did not sell any swaps designated in cash flow hedge relationships.

2017	Notional value $000	Fair value asset $000	Fair value liability $000
Derivatives designated as cash flow hedges	87,500	6	485

Below is the schedule indicating as at 30 June 2017, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

2017	Within 1 year $000	1-2 years $000	2-3 years $000
Cash outflows	(1,197)	(1,493)	(1,900)
Cash inflows	792	1,283	2,039
Net cash flows	**(405)**	**(210)**	**139**

2016	Notional value $000	Fair value asset $000	Fair value liability $000
Derivatives designated as cash flow hedges	77,500	-	1,358

Below is the schedule indicating as at 30 June 2016, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

2016	Within 1 year $000	1-2 years $000	2-3 years $000
Cash outflows	(1,529)	(1,192)	(2,312)
Cash inflows	1,049	800	1,768
Net cash flows	**(480)**	**(392)**	**(544)**

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 2017	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets	Gross amounts set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Amounts subject to master netting arrangements and cash collateral	Net amounts
	$000	$000	$000	$000	$000
Financial assets					
Derivative financial instruments	6	-	6	-	6
Financial liabilities					
Derivative financial instruments	485	-	485	-	485

30 June 2016	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets	Gross amounts set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Amounts subject to master netting arrangements and cash collateral	Net amounts
	$000	$000	$000	$000	$000
Financial assets					
Derivative financial instruments	-	-	-	-	-
Financial liabilities					
Derivative financial instruments	1,358	-	1,358	-	1,358

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.

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 11.5% capital. The Group's policy is to apply a minimum target of 13% capital. A trigger level of 13% 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:

	2017 $000	2016 $000
Tier 1 Capital		
General reserves	234,150	214,904
Current year earnings	11,014	14,223
Less: Deferred tax assets	(123)	(2,178)
Less: Intangible assets	(17,729)	(3,473)
Less: Other Capitalised Expenses	(18)	(6,599)
Less: Equity investment in other ADI's	(3,743)	(3,743)
Less: Fair value adjustments	(5,494)	-
Total	**218,057**	**213,134**
Tier 2 Capital		
Collective impairment reserve	9,113	9,182
Total	**9,113**	**9,182**
Total regulatory capital	**227,170**	**222,316**
Risk weighted assets		
Credit risk	1,347,113	1,415,968
Operational risk	202,505	193,706
Total risk weighted assets	1,549,618	1,609,674
Capital ratios	**14.66%**	**13.81%**

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 2017 the parent of the Group was the Bank.

	2017 $000	2016 $000
Result of parent entity		
Profit for the year	11,014	14,223
Other comprehensive income	5,423	(1,180)
Total comprehensive income for the year	16,437	13,043
Financial position of parent entity at year end		
Total assets	4,065,463	4,049,072
Total liabilities	3,810,677	3,811,523
Total equity of parent entity comprising of:		
Reserves	13,976	8,643
Retained earnings	240,810	229,706
Total equity	**254,786**	**238,349**

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Qudos Mutual Limited trading as Qudos Bank
A.B.N. 53 087 650 557 Incorporated in Australia
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