Annual Report 2016

Contents

Board of Directors

Peter Whitelaw - Chair
B.Econ, B.Ed.Studies, M.Ed, Grad.Dip.School Admin, Grad Cert.Soc.Sc, MAMI, MAICD

John Fisher-Stamp - Deputy Chair
B.Bus.A, FCA, FTIA, MIMC, GAICD, CFP

Adam Allan
B.Bus, MBA, F Fin, GAICD, AFAIM, AFAMI

Janette Bowe
BHA, MBA, GAICD

Helen Coyer
B.Bus (Accounting), GradDipIT, CPA, GAICD, AIMM

Nathan King
B.Bus (Banking & Finance), CPA, ACIS (Company Secretarial Practice), GAICD

Anthony McGruther
M.Ed, Grad. Dip. Ed Admin, Dip. Teach, GAICD

Executive Management

Steve Targett - Chief Executive Officer
MAIEx (Diploma), Series 3 US Futures, MAICD

Kevin Kehoe - Chief Financial Officer
B.Com, CPA, Grad.Dip. App.Fin

Kimberley Roberts - Chief Marketing Officer
B.Comm (Marketing/Human Resource Management), CPM

Les Steinke - Chief Operating Officer
B.Bus (Accounting/Human Resource Mgt)

Brendon Comrie - Chief Risk Officer
B.Soc Sci (Economics/Law), Bachelor of Laws (LLB)

Company Secretary

Kevin Kehoe
B.Com, CPA, Grad.Dip. App.Fin

Registered Office

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Chair's Review

Financial review

2015/16 was a significant year for QT Mutual Bank and we remain in a relatively strong position despite competing in a low growth, low interest rate environment.

Profitability decreased by approximately \$1.59 million, from \$9.03 million last year to \$7.44 million this year. This was heavily driven by one-off costs relating to the RACQ merger proposal.

Loans growth also experienced a decline, with growth at 4.09% compared to 7.73% the year before, despite very competitive mortgage pricing being offered to members. This competitive pricing, together with competitive market and regulatory forces, also contributed to a decrease in the net interest margin, from 2.59% to 2.57%.

Despite declines in profit and loans growth, QT Mutual Bank's capital position sits at a very healthy 21.00%.

Corporate strategy

In reviewing the financial figures across the past five years, we have enjoyed steady growth as a result of hard work and prudent decision making. However, as this year's results reveal, growth rates are becoming more difficult to maintain. This is due to a number of factors: slow economic growth, a highly competitive market, increased regulation and compliance costs, and interest rate cuts.

We embarked on a three-year strategic plan in order to equip the organisation adequately for the future. Year two has placed QT Mutual Bank in a solid financial position but sluggish loan growth and profitability has meant ongoing review of our strategy.

Board of Directors

A ballot for the election of directors was conducted leading up to the 2015 Annual General Meeting. For the first time, the option to vote online was available to members in addition to the usual postal ballot. This is a great demonstration of how we are expanding in the digital and online environment and making it more convenient for members to have their say.

The three successful candidates were previous incumbents Jan Bowe, Tony McGruther and John Fisher-Stamp. They were re-appointed for another three-year term effective from the close of the 2015 AGM. I am pleased to work with an experienced and dedicated team of Directors who continue to work for the members' benefit.

The board is steadfast in its commitment to members and continues to ensure the decisions made can stimulate growth in ways that benefit members in the medium and long term.

Appreciation

Towards the end of this financial year, QT Mutual Bank announced a proposal to merge with RACQ, another Queensland mutual organisation. I thank members for their patience while we worked on obtaining the approvals necessary before a vote could take place. Your feedback to date has reaffirmed we are heading in the right direction in terms of securing a sustainable future for members and for the organisation.

I thank our people for their resilience, positive attitude and unwavering standard of service through another year of change and challenge. They bring our mutual values and ethos to life, placing members and community above all else, and this member-centric approach is reflected time and time again in members' positive feedback.

A journey of growth

We live in a time where change is a constant and this financial year has not been an exception.

Early last year, the head office building at 454 St Pauls Terrace in Fortitude Valley went on the market and was sold in the second half of 2016 after receiving an attractive offer. The new head office is now located at 60 Edward Street in Brisbane CBD, only a couple of doors down from where our head office was back in 1967. We still have a presence in Fortitude Valley with the new branch located in Green Square precinct, also on St Pauls Terrace.

The move to a more modern facility and central location is aligned with our goal to improve and modernise how we operate. It will allow us to lift corporate culture to be more interpersonal, collaborative and enjoyable. Our people deserve a strong and supportive culture where they can perform at their best, realise their potential and focus on delivering the best for members. The work environment is only one element but it should not be underestimated.

The current economy is imposing pressure on almost all industries across the globe and ours is not unique. However, there are extra challenges associated with being a smaller mutual financial institution.

The number of mutual authorised deposit taking institutions—building societies, credit unions and mutual banks—has experienced strong decline over the years. In 1983, there were 549 credit unions in Australia. By 2005, that number had dropped to 183, including building societies and mutual banks. As of June 2016, it has decreased even further to 87[1]—essentially a reduction of more than 50% in just over a decade. The decline has occurred largely by means of consolidation, with credit unions, building societies and mutual banks merging to create scale and deliver greater benefits to members.

The organisation has been on a journey of growth for some time, with the last major transformation taking place in 2011 when we changed from a credit union to a mutual bank. The world is changing quickly and it is important the board and executive management remain strategic and forward thinking about how we can attain sustainable growth. Numerous options have been investigated and considered. This has included suitable partners that will help us achieve the next evolutionary transformation and we have embarked on a proposed merger with RACQ with the confidence it will do just that. At the time of writing, we are awaiting the outcome of the first ballot. Members, quite rightly, will have the final say on the future of the bank.

Whatever the outcome of that vote, members can be assured we will stay true to the mutual principles on which we were founded.

Thank you to our members for choosing QT Mutual Bank and for continuing to trust us to look after your interests.

Peter Whitelaw
Chair

[1] Customer Owned Banking Association (2016), *Key Fact Sheet June 2016*, retrieved from customerownedbanking.asn.au/media-a-resources/key-stats-a-fact-sheets

Peter Whitelaw
Chair

CEO's Report

QT Mutual Bank has ended a relatively lacklustre year with more than $1.43 billion in total assets and total equity of $147 million, placing the bank in a strong financial position. This was further evidenced by our BBB+/A-2 credit rating from Standard & Poor's and A3 credit rating from Moody's.

Member centricity remains at the core of our business. When other banks were increasing rates to compensate for increased capital costs at members' expense, we did not. In contrast, we have consistently decreased interest rates in line with the RBA cash rate cuts, delivering tangible benefits to our borrowing members.

This approach has positioned our home loan rates as some of the most competitive in the market, but it hasn't come without costs. As the Chair's financial review discloses, profits, net interest margin and loans growth have dropped in part reflecting this dividend we have passed to members through pricing.

The forecast for the next financial year paints an even tougher landscape, with predictions of further rate cuts and sluggish growth in the Queensland housing market. Nevertheless, we will remain committed to putting members first and delivering medium and long term value.

We often speak about sustainable growth and as a mutual organisation, the most important measure of sustainability is members. It's attracting new members, holding on to our long-standing ones, and keeping customer satisfaction levels high.

Customer service has always been our point of difference, which is why we continue to invest heavily in staff training and leadership development. This ensures our workforce is well-equipped, well-informed, engaged, and living the mutual principles each and every day.

Community

QT Mutual Bank has a proud history and the education community has played an important and longstanding role. I am pleased to see our commitment and support of this sector remains as strong as ever.

We maintain robust partnerships with key education organisations, including the Queensland College of Teachers, Queensland Catholic Education Commission, and Queensland Teachers' Union, to name only a few. All sponsorship agreements have been renegotiated for another term, a demonstration of our ongoing commitment to the education community.

As the inaugural partner of Aspirations4Kids in Sport (A4K), formerly Future State Greats, we are proud to continue helping this great organisation achieve its vision to make a difference in the lives of young Queenslanders through sport.

It has been another great year for our school programs, Keyway and Graduate to Greatness. Presenter Eric Bailey continues to inspire and motivate students across Queensland simply by speaking from his own life experiences. We regularly receive glowing feedback from parents praising the program and its positive impact on their kids.

We donated numerous book packs and bookmarks to schools across Queensland as a sponsor of the 2015 Premier's Reading Challenge. There is power in literacy and it is important to encourage students to read for both learning and pleasure, which is why we are sponsoring the Premier's Reading Challenge again in 2016.

Good education relies on good teachers and we fully endorse teaching excellence across Queensland. Once again, we sponsored the Queensland College of Teachers' Teaching Awards and the Spirit of Catholic Education Awards. Congratulations to all award recipients and finalists for your outstanding contributions to education.

Staff from our branches actively reach out to local communities and to teachers and education staff from local schools, offering free morning teas and coffee vans. It's a great way to engage with members of our education community and to nurture these important relationships.

Distribution and products

The 2015/16 financial year saw some significant investment in product, services and technology.

Through our partner Western Union Business Solutions, we launched a telegraphic transfer service. The service allows members to receive and send money overseas with ease and convenience. It also offers competitive exchange rates and fewer fees, translating to better value for members.

The website homepage underwent a major redesign and now offers members an easier, more intuitive online experience. Thanks to the deployment of a new loan management system, members have been able to enjoy a faster and more efficient loan application process.

We added a new product to our home loan product portfolio, the Mortgage Saver, a competitive variable home loan. Only five months after entering the market, this product was awarded a CANSTAR Rising Star rating. CANSTAR also awarded a five star rating to the Teachers' Life fixed rate home loans.

A private banking service has been re-established to provide member with another distribution channel and greater service convenience. The dedicated private banking team will provide exceptional relationship management service to high net worth individuals and key members within our core education bond.

Continuous improvement is a crucial component of our business operating model and I look forward to sharing with members more of our progress in the next financial year.

An exciting future

On 18 April 2016, I had the pleasure of announcing a proposed merger between QT Mutual Bank and RACQ alongside RACQ Group CEO Ian Gillespie. We are genuinely excited about the opportunities this partnership can deliver to members and staff of both organisations.

QT Mutual Bank's strategic plan has always been about sustainable growth because the more we grow, the more we can invest in areas of importance to members. This includes technology, service, community and member benefits. Such a partnership can offer us the scale and funding to provide a long term future.

The diversity of our combined product and service offering also translates to increased opportunities for staff in terms of professional and personal development, in banking or otherwise.

In joining another mutual organisation so closely aligned in value and trusted by so many Queenslanders, we are confident the partnership will cultivate a corporate culture that staff can be proud to belong to.

It is important to note that the proposed merger is not automatic; QT Mutual Bank's future lies in the hands of our members. It is, after all, your bank and the decision lies with you. Therefore, I urge you to have a vote in your future.

Steve Targett
CEO

Five Year Summary

Statement of Comprehensive Income

	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	**2015/16 $'000**
Net interest income	33,866	33,374	33,647	35,207	**35,717**
Other revenue and income	12,343	12,107	12,007	11,886	**12,330**
Non-interest expenses	37,457	36,018	38,038	37,820	**40,280**
Impairment expense on loans and advances	314	575	52	240	**325**
After tax profit attributable to Members of the Mutual Bank	6,292	6,742	5,366	6,428	**5,170**

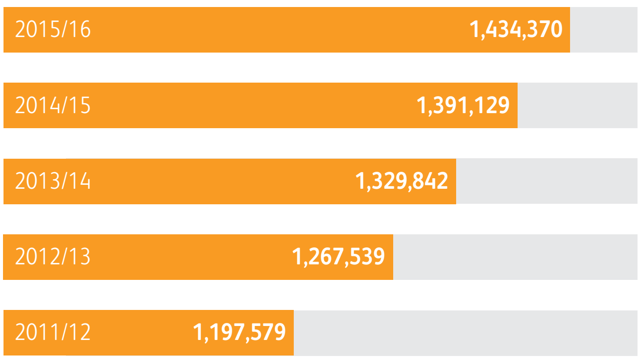
Statement of Financial Position

	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	**2015/16 $'000**
Total assets	1,197,579	1,267,539	1,329,842	1,391,129	**1,434,370**
Gross loans and advances	1,004,241	1,049,770	1,094,148	1,178,706	**1,226,893**
Provision for loan impairment	156	565	112	164	**280**
Deposits	1,079,667	1,142,355	1,200,144	1,251,799	**1,276,406**
Total Members' equity	108,625	115,838	121,701	128,135	**146,668**

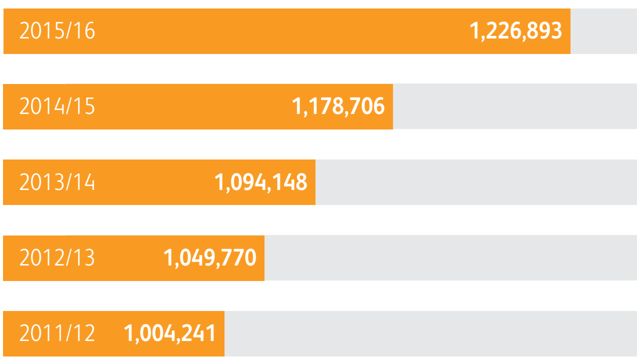
Ratio Analysis

	%	%	%	%	%
Net interest income to average assets	2.84%	2.71%	2.59%	2.55%	**2.53%**
Net profit after tax to average assets	0.53%	0.55%	0.42%	0.47%	**0.37%**
Net profit after tax to average equity	6.08%	6.14%	4.73%	5.26%	**4.05%**
Provision for loan impairment to gross loans and advances	0.01%	0.02%	0.02%	0.03%	**0.06%**
Capital Adequacy Ratio	17.4%	18.1%	18.5%	18.6%	**21.0%**

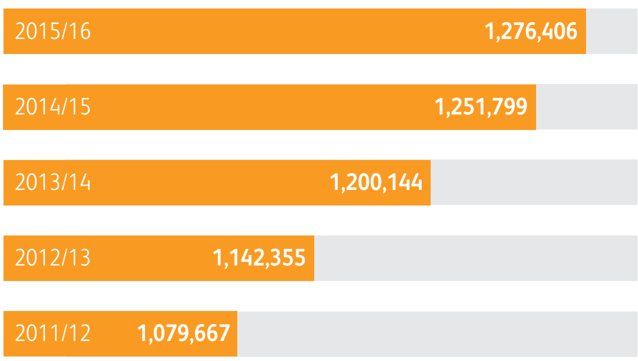
Total Assets ($'000)



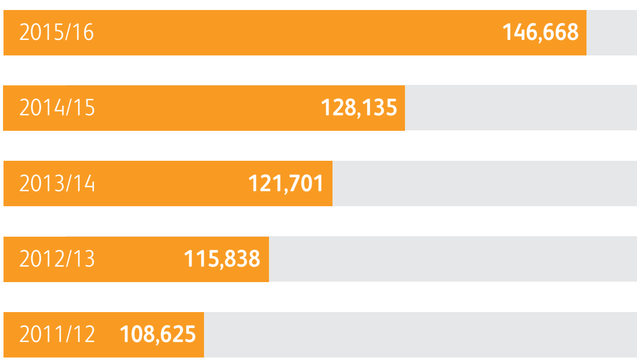
Gross Loans and Advances ($'000)



Deposits ($'000)



Total Member's Equity ($'000)



Corporate Governance Statement

This Statement describes QT Mutual Bank's ('QTMB's', 'our') corporate governance framework, policies and practices in place during the 2015/16 financial year.

Framework and Approach

QT Mutual Bank's approach to corporate governance aligns with its key values and behaviours of accountability, transparency and professional integrity. Its Board of Directors is committed to a culture that respects and achieves corporate governance excellence. This, in turn, affects its sustainability and performance.

QT Mutual Bank is guided by best practice in its corporate governance frameworks, as well as adherence to its constitutional, legislative and regulatory obligations.

Our Board of Directors

The Board is the governing body of QT Mutual Bank and acts through the Chief Executive Officer it has appointed. The Chief Executive Officer and the management team reporting to him, carry out the bank's day-to-day business.

Board Composition

QT Mutual Bank's Constitution prescribes that the Board must be composed of at least seven elected Directors (including Directors appointed to fill casual vacancies) at all times. The Board may also appoint up to two additional Directors to supplement skill sets and experience at any time. During the 2015/16 financial year, the Board consisted of seven Directors.

All Directors must meet the constitutional eligibility requirements, including age and tenure limits, membership and being fit and proper under the Board's Fit and Proper Policy which is aligned with the relevant APRA Prudential Standard CPS 520 – Fit and Proper. All members have an equal vote in Directors' elections which are conducted when constitutionally required.

Board Charter and Framework

The Board's roles and responsibilities are set out in a document entitled Board Charter (Charter). The Board's primary roles and responsibilities include:

- considering and approving QT Mutual Bank's strategic direction
- evaluating the Board's performance and determining size and composition
- considering and approving the Board Renewal Policy
- appointing and determining the tenure, remuneration and other employment terms of the Chief Executive Officer, Chief Risk Officer and Internal Auditor
- evaluating the Chief Executive Officer's performance
- succession planning at both board and executive levels
- approving QT Mutual Bank's Risk Management Strategy and frameworks, as well as monitoring effectiveness
- monitoring and considering the social, ethical and environmental impacts of QT Mutual Bank's activities
- monitoring workplace health and safety issues and consider appropriate reports and information
- maintaining an ongoing dialogue with QT Mutual Bank's auditors and, where appropriate, principal regulators
- internal governance including delegated authorities.

The Board conducts periodic reviews of the Charter to ensure that it reflects the bank's needs. The Charter also sets out policy and guidelines relating to matters including board sub-committees, delegations of authority, board processes, meetings and separation of duties. It also outlines the particular roles of the Board Chair, Chief Executive Officer and Company Secretary.

The Board Charter is the key document in the governance framework. It is supplemented by other board-approved policies including the Effective Board Policy, the Fit and Proper Policy, the Whistleblower Policy, the Conflicts of Interest Policy and the Delegations of Authority Policy.

Prudential Responsibilities

Prudent risk management and sustainable financial performance are critical to QT Mutual Bank's long-term viability and to the safety of depositors' funds. The Board and management take an enterprise-wide, integrated approach to managing risk; ensuring all staff actively participate in the management of risk on a day-to-day basis.

The various risk management systems in place include:

Board Risk-Appetite and Tolerance Statement	Risk Management Strategy
Risk Management Policy	Liquidity Management Strategy
Market Risk Management Strategy	Information Risk Management System
Capital Management Strategy and Plan	Operational Risk Management System
Credit Risk Management System	Internal Capital Adequacy Assessment Process ('ICAAP')
Business Continuity and Disaster Recovery Plans	Outsourcing Policy
Internal Audit Plan	AML/CTF Policy, Compliance Plan and Program
Conflicts of Interest Policy	Fraud Policy.

The Board reviews these systems regularly according to a timetable, and where necessary, out of cycle.

Board Committees

During the 2015/16 financial year the Board had Committees in place to assist it in carrying out its responsibilities. Each Committee, its primary responsibility and duties and membership during this period, are set out below:

Committee	Primary Responsibility	Membership
Board Audit Committee	Provide the Board with an objective non-executive review of the effectiveness of the bank's financial reporting and risk management framework.	At least three directors. Meetings are also attended by the Chief Executive Officer, external auditor, Chief Financial Officer, Chief Risk Officer and the Internal Auditor.
Nominations Committee (formed under clause 13.8 of the Constitution)	Assist the Board with assessing whether any candidate for election and/or appointment as a director is fit and proper to be and act as a director of the Bank, in terms of the board's Fit and Proper Policy and APRA Prudential Standard CPS 520 - Fit and Proper.	At least three members, of who half must be independent. Chaired by a director.
Board Governance Committee	Assist the Board in ensuring the Constitution, as well as appropriate corporate governance practice and policy, is adhered to and reviewed within the bank and reflects regulatory requirements and best practice.	At least three directors. Meetings are also attended by the Chief Executive Officer, Company Secretary and Chief Risk Officer.
Strategic Initiatives Committee	Oversees the consideration and management of significant strategic initiatives and issues.	At least three Directors and the Chief Executive Officer.
Board Risk Committee	Assist the Board in the effective discharge of its responsibilities to oversee the risk profile and the risk management framework of the bank.	At least three directors. Meetings are also attended by the Chief Executive Officer, Chief Risk Officer and Chief Financial Officer.
Remuneration Committee	Assist the Board with fulfilling its corporate governance responsibilities in relation to considering and reviewing the Remuneration Policy and recommending to the board on remuneration for directors, the Chief Executive Officer and executive management.	At least three directors. Meetings are also attended by the Chief Executive Officer.

Other Committees may be established from time to time, as required, to consider certain issues and functions in detail and report back with any recommendations to the Board.

Maintaining an Effective Board

The Board has adopted the Effective Board Policy. This document establishes a framework for the Board to properly discharge its roles and responsibilities as an effective, efficient and cohesive body that continues to evolve. The Effective Board Policy sets out:

- how the Board identifies the skills and experience needed to discharge its roles and responsibilities as set out in the Board Charter
- what skills and experience the Board considers are essential and/or desirable to be an effective Director of QT Mutual Bank
- how the Board objectively evaluates its performance as a whole and the performance of individual directors
- the measures the Board takes to ensure an evolving and effective Board and Director complement for the bank.

Board Assessment

Regular and objective assessments of the Board's performance are carried out to maintain the Board's effectiveness for the bank's overall benefit. The Board, assisted by an external professional facilitator, reviews its overall performance as well as the performance of individual directors. A policy has been developed to ensure that Board assessment is conducted regularly, transparently and effectively.

Directors' Independence

All Directors are independent of management and free of any business or other relationship that could materially affect the exercise of their unfettered and independent judgement. To reinforce that independence, policy permits any director to seek independent professional or legal advice to assist with matters before the Board and may receive financial support from the Bank to do so.

Directors' Development and Education

The Board recognises that it can only fulfil its role and responsibilities by keeping abreast of issues that have an impact on the business. Accordingly, it is committed to ongoing training and professional development activities to assist directors in carrying out their obligations. This is formalised through policies and committee oversight dedicated to same.

Corporate Governance Statement

Directors' Remuneration

Members approve directors' remuneration at the Annual General Meeting. Before putting a recommendation for Directors' remuneration to the meeting, industry benchmarking information is reviewed and advice is obtained from external sources including an independent consultant.

Ethical Standards

The Board plays a key role in upholding the core values of mutual financial institutions and promoting high standards of corporate and business ethics. The Board's policy is to require that directors and staff maintain the highest ethical standards of conduct. QT Mutual Bank subscribes to the Customer Owned Banking Code of Practice.

Whistleblower Policy

The Board has established a Whistleblower Policy and provides details of its operation on the staff website.

Communication to Members

The Board aims to keep members informed so they may follow the bank's performance and provides:

- a biannual members' newsletter outlining matters of general interest
- detailed information at Annual General Meetings and other meetings called to approve Board action
- regular updates on performance and other information of interest to members on the corporate website.

This information, along with the Annual Report, is posted on the corporate website and available to all members free of charge.

Sustainability and Corporate Social Responsibility

The Board takes its corporate social responsibility obligations seriously. It has adopted a Corporate Social Responsibility Policy and recognises that social responsibility is one of the core values upon which mutual financial institutions are premised. The Board has identified particular issues affecting the bank and undertakes and supports initiatives that advance its social responsibility goals. These included promotion of financial literacy, supporting the next generation of teachers and students, promoting responsible lending practices and minimising QT Mutual Bank's environmental impact where possible.

The Future

QT Mutual Bank's Board of Directors continues to recognise the importance of an effective corporate governance framework to best position our organisation for the challenges that lie ahead.

Directors' Report
for the year ended 30 June 2016

Your Directors present their report together with the financial statements of QT Mutual Bank Limited (the 'Mutual Bank') and the group financial statements of the Group, being the Mutual Bank and its subsidiaries, for the year ended 30 June 2016.

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

Directors

The names of the Directors in office at any time during the financial year and up to the date of this report are:

Peter Geoffrey Whitelaw
John Thomas Fisher-Stamp
Adam Lindley Allan
Janette Michelle Bowe
Helen Anne Coyer
Nathan Leslie King
Anthony Gerard McGruther

All Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

The names, qualifications, experience and special responsibilities of the Directors in office at any time during the financial year and up to the date of this report are as follows:

Peter Whitelaw (Chair)
B.Econ, B.Ed.Studies, M.Ed, Grad.Dip.School Admin, Grad Cert.Soc.Sc, MAMI, MAICD

Director since 2001. Chair since October 2008. Previously a State Secondary School Principal and District Director in Education Queensland. Director of QT Financial Planning Pty Ltd. Chair of the Mutual Bank's Board Remuneration and Strategic Initiatives Committees and member of the Mutual Bank's Board Governance Committee.

John Fisher-Stamp (Deputy Chair)
B.Bus.A, FCA, FTIA, MIMC, GAICD, CFP

Director since 2008. Deputy Chair since November 2014. John is a Chartered Accountant and a Director of Financial and Advisory Services Group The DKM Group, Brisbane, an Executive Director of USA corporation Ouro Mining, Inc and a Director of ASX listed company A-Cap Resources Limited. John is Chair of the Mutual Bank's Board Audit Committee and member of the Mutual Bank's Board Risk, Board Remuneration and Strategic Initiatives Committees.

Adam Allan
B.Bus, MBA, F Fin, GAICD, AFAIM, AFAMI

Director since 2013. Currently a Councillor with the Brisbane City Council and Director. Has previously held senior executive roles with a number of global financial services organisations including with the HSBC Group. Member of the Mutual Bank's Board Governance, Board Risk, Board Remuneration and Strategic Initiatives Committees.

Janette Bowe
BHA, MBA, GAICD

Director since 2012. Currently a Consultant and Company Director. Has previously held senior executive roles with the Commonwealth Bank of Australia and Suncorp-Metway Ltd. Chair of the Mutual Bank's Board Risk Committee and member of the Mutual Bank's Board Audit, Board Remuneration and Strategic Initiatives Committees.

Helen Coyer
B.Bus (Accounting), GradDipIT, CPA, GAICD, AIMM

Director since 2014. Currently Company Director and Senior Executive. Has an extensive senior executive career in service-oriented roles in the education, financial services and public sectors. Chair of the Mutual Bank's Nominations Committee and member of the Mutual Bank's Board Governance and Board Risk Committees.

Nathan King
B.Bus (Banking & Finance), CPA, ACIS (Company Secretarial Practice), GAICD

Director since 2007. Nathan brings experience leading accounting, finance, and IT areas in small, medium, and global sized businesses. Currently, Chief Financial Officer and Company Secretary with Lindsay Australia. Previously with Rio Tinto, Sydney Airport, Hilton and Hyatt Hotels. Prior to that a small business operator. Chair of the Mutual Bank's Board Governance Committee and member of the Mutual Bank's Board Audit Committee.

Anthony McGruther
M.Ed, Grad. Dip. Ed Admin, Dip. Teach, GAICD

Director since 2009. Currently an Educational Consultant. Previously a Teacher and School Principal and President of Australian and Queensland State Primary School Principals' Associations. Member of the Mutual Bank's Board Audit, Board Governance and Nominations Committees.

Company Secretary

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

Kevin Kehoe
BCom, CPA, Grad.Dip. App.Fin

Chief Financial Officer, responsible for Finance, Treasury and Corporate Strategy. Company Secretary since July 2014 for QT Mutual Bank Ltd.

Directors' Meetings

The numbers of meetings of Directors (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director were as follows:

	Directors' Meetings		Audit Committee Meetings		Other Committee Meetings	
	Attended*	Held#	Attended*	Held#	Attended*	Held#
Peter Whitelaw	16	16			9	10
John Fisher-Stamp	15	16	4	4	10	10
Adam Allan	15	16			15	15
Jan Bowe	15	16	4	4	9	10
Helen Coyer	16	16			10	10
Nathan King	16	16	4	4	5	5
Anthony McGruther	16	16	3	4	5	5

* Reflects the number of meetings attended during the time the Director held office or committee membership during the financial year.

\# Reflects the number of meetings held during the time the Director held office or committee membership during the financial year.

Insurance and Indemnification of Officers or Auditor

Insurance premiums have been paid to insure each of the Directors and officers of the Mutual Bank against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Mutual Bank. In accordance with normal commercial practice, disclosure of the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditor of the Mutual Bank.

During or since the end of the financial year, no indemnities have been given to the officers or auditor. The Mutual Bank has provided indemnities to certain officers in respect of their directorships of a subsidiary company.

Financial Performance Disclosures

Principal Activities

The principal continuing activity of the Group during the year was the provision of a range of retail financial products and services to members.

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

Operating Results

The net profit of the Group for the year after providing for income tax and non-controlling interest was $5,170,000 (2015: $6,428,000).

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 Mutual Bank.

Share Options

No entity in the group has granted an option over unissued shares or interests to any person entitling that person to take up shares in that entity during or since the end of the financial year and there are no options outstanding at the date of this report.

Review of Operations

The Group's operations for the year ended 30 June 2016 produced a profit before tax of $7,442,000 (2015: $9,033,000). The results of the Group were adversely affected by an increase in non-interest expenses of $2,460,000. This increase was mainly associated with the additional costs incurred as part of the proposed merger process with RACQ. Net interest margin remained stagnant during the year in a low interest rate environment.

The capital adequacy ratio at reporting date was 21.0% (2015: 18.6%). This was well above the Mutual Bank's internal minimum capital adequacy level which is set at 12% (2015: 12%).

Significant Changes in the State of Affairs

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

Events Subsequent to the End of the Reporting Period

Proposed merger with RACQ

The proposed merger with RACQ announced in April 2016, is still subject to two separate votes by the members of QTMB and subsequent Federal Court approval. The first vote is scheduled to occur in August 2016 with the second scheduled for October 2016.

Sale of land and building

The Group signed a Put and Call Option Deed effective 18 May 2016 to sell its head office premises at 454 St Pauls Terrace. The sales contract is expected to be executed in September 2016 upon the exercise of the put or call option. A heads of agreement has been entered to take up tenancy at RACQ offices in Edward Street, Brisbane.

There are no other matters or circumstances that have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations, the results of those operations, or the state of affairs of the Mutual Bank or the Group in subsequent financial years.

Likely Developments

The Mutual Bank will continue to implement its Strategic Plan as outlined in the Chair's Review and CEO's Report. The Mutual Bank and the Group will continue to provide financial services, including an increasing range of competitive savings, lending, insurance broking and financial planning services to its customers through its network of branches throughout Queensland, together with the mobile lenders, contact centre and online distribution channels.

Looking forward, the Mutual Bank still faces a challenging market, given its size and position. In response, the Mutual Bank remains focused on improving its current business through initiatives to both increase revenues and improve efficiencies, particularly around customer service delivery and innovation, as well as providing funding for loans growth.

The Directors also consider that the Mutual Bank continues to be well positioned as:

- The Mutual Bank is in a sound financial position;
- The Mutual Bank has an established core membership bond with the education industry; and
- The Mutual Bank has a modern banking system that provides a platform for increased efficiency and the potential to capture scale economies.

The recently announced merger with RACQ is likely to be finalised next financial year.

Further information on likely developments in the operations of the Mutual Bank and the expected results of operations has not been included in these financial statements because the Directors consider that it would be likely to result in unreasonable prejudice to the Mutual Bank.

Regulatory Disclosures

The qualitative and quantitative disclosures on capital and remuneration as required by APS 330 Public Disclosures can be seen on the website of QT Mutual Bank Limited.

Proceedings

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

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2016 forms part of this report and a copy of this declaration appears on the page following this report.

Environmental Regulation

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Rounding of Amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest one thousand dollars in accordance with the option available to the Mutual Bank under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Mutual Bank is an entity to which the Class Order applies. The Mutual Bank is permitted to round to the nearest one thousand dollars ($'000) for all amounts except prescribed disclosures which are shown in whole dollars.

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:

P.G. Whitelaw	**J.T. Fisher-Stamp**
Chair	Deputy Chair

Signed and dated 25 August 2016

Auditor's Independence Declaration

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Declaration of Independence by T J Kendall to the Directors of QT Mutual Bank Limited

As lead auditor of QT Mutual Bank Limited and its controlled entities for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of QT Mutual Bank Limited and the entities it controlled during the period.

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 25 August 2016

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2016

	Note	Economic Entity		Mutual Bank	
		2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Interest income	3	**61,657**	66,471	**61,657**	66,471
Interest expense	3	**(25,940)**	(31,264)	**(25,964)**	(31,290)
Net Interest Income		**35,717**	35,207	**35,693**	35,181
Other revenue and income	4	**12,330**	11,886	**9,386**	9,038
Impairment loss on loans and advances to members	15	**(325)**	(240)	**(325)**	(240)
Employee benefits expense		**(19,486)**	(18,801)	**(17,888)**	(17,172)
Occupancy expense		**(3,072)**	(3,060)	**(3,066)**	(3,054)
Depreciation and amortisation expense		**(2,163)**	(2,269)	**(2,150)**	(2,255)
Other expenses		**(15,559)**	(13,690)	**(14,925)**	(13,060)
Profit before income tax expense	5	**7,442**	9,033	**6,725**	8,438
Income tax expense	6(a)	**(2,048)**	(2,370)	**(1,664)**	(1,965)
Profit for the Year		**5,394**	6,663	**5,061**	6,473
Other Comprehensive Income					
Items that may be reclassified to profit or loss					
Net changes in fair value of cash flow hedges		**9**	(19)	**9**	(19)
Income tax relating to these items	6(c)	**(3)**	6	**(3)**	6
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses) from defined benefit superannuation plan		**(667)**	27	**(667)**	27
Income tax relating to these items	6(c)	**200**	(8)	**200**	(8)
Net gain on revaluation of land and building		**19,748**	-	**19,748**	-
Income tax relating to these items	6(c)	**(5,924)**	-	**(5,924)**	-
Other Comprehensive Income for the Year, Net of Income Tax		**13,363**	6	**13,363**	6
Total Comprehensive Income for the Year		**18,757**	6,669	**18,424**	6,479
Profit attributable to:					
Non-controlling interest		**224**	235	**-**	-
Controlling interest		**5,170**	6,428	**5,061**	6,473
Profit for the Year		**5,394**	6,663	**5,061**	6,473
Total Comprehensive Income attributable to:					
Non-controlling interest		**224**	235	**-**	-
Controlling interest		**18,533**	6,434	**18,424**	6,479
Total Comprehensive Income for the Year		**18,757**	6,669	**18,424**	6,479

The accompanying notes form part of these financial statements.

Statements of Financial Position

as a 30 June 2016

	Note	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Assets					
Cash and cash equivalents	9	**29,940**	14,657	**29,940**	14,657
Income tax receivable	21(a)	**371**	70	**486**	244
Other receivables	10	**1,458**	2,327	**896**	1,754
Non-current assets held for sale	16(c)	**22,683**	-	**22,683**	-
Financial assets at fair value through other comprehensive income	11	**3,000**	3,000	**3,075**	3,075
Financial assets at amortised cost	12	**141,440**	178,497	**141,440**	178,497
Loans and advances	14, 15(d)	**1,226,893**	1,178,706	**1,226,893**	1,178,706
Property, plant and equipment	16	**5,097**	7,522	**5,069**	7,495
Deferred tax assets	21(b) (c)	**-**	2,104	**-**	1,972
Intangible assets	17	**2,349**	2,669	**2,349**	2,669
Defined benefit superannuation asset		**-**	667	**-**	667
Other assets	18	**1,139**	910	**1,111**	881
Total Assets		**1,434,370**	1,391,129	**1,433,942**	1,390,617
Liabilities					
Other payables	19	**6,240**	4,641	**5,955**	4,368
Borrowings	20, 30	**-**	4,538	**-**	4,538
Deposits	22	**1,256,377**	1,231,764	**1,257,269**	1,232,534
Medium term notes	23	**20,029**	20,035	**20,029**	20,035
Derivatives	24	**274**	283	**274**	283
Deferred tax liabilities	21(b) (c)	**2,845**	-	**2,982**	-
Provisions	25	**1,663**	1,496	**1,508**	1,358
Total Liabilities		**1,287,428**	1,262,757	**1,288,017**	1,263,116
Net Assets		**146,942**	128,372	**145,925**	127,501
Equity					
Redeemed preference share capital account	26	**936**	918	**936**	918
Retained earnings		**130,043**	125,388	**129,300**	124,754
Reserves	27	**15,689**	1,829	**15,689**	1,829
Controlling interest		**146,668**	128,135	**145,925**	127,501
Non-controlling interest	28	**274**	237	**-**	-
Total Equity		**146,942**	128,372	**145,925**	127,501

The accompanying notes form part of these financial statements.

QT Mutual Bank Limited and Subsidiaries

Statements of Changes in Equity

for the year ended 30 June 2016

	Note	Redeemed Preference Share Capital Account	Reserve for Credit Losses	Cash Flow Hedge Reserve	Asset Revaluation Reserve	Retained Earnings	Controlling Interest	Non-controlling Interest	Total Equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Economic Entity									
Balance at 1 July 2014		**898**	**1,878**	**(185)**	**-**	**119,110**	**121,701**	**252**	**121,953**
Comprehensive income for the year									
Profit for the year		-	-	-	-	6,428	6,428	235	6,663
Other comprehensive income		-	-	(13)	-	19	6	-	6
Total comprehensive income for the year		-	-	(13)	-	6,447	6,434	235	6,669
Transfers									
Transfers to general reserve		-	149	-	-	(149)	-	-	-
Transfers to redeemed preference share capital account		20	-	-	-	(20)	-	-	-
Total Transfers		20	149	-	-	(169)	-	-	-
Transactions with owners in their capacity as owners									
Dividends paid	33	-	-	-	-	-	-	(250)	(250)
Total transactions with owners in their capacity as owners		-	-	-	-	-	-	(250)	(250)
Balance at 30 June 2015		**918**	**2,027**	**(198)**	**-**	**125,388**	**128,135**	**237**	**128,372**
Comprehensive income for the year									
Profit for the year		-	-	-	-	5,170	5,170	224	5,394
Other comprehensive income		-	-	6	13,824	(467)	13,363	-	13,363
Total comprehensive income for the year		-	-	6	13,824	4,703	18,533	224	18,757
Transfers									
Transfers to general reserve		-	30	-	-	(30)	-	-	-
Transfers to redeemed preference share capital account		18	-	-	-	(18)	-	-	-
Total Transfers		18	30	-	-	(48)	-	-	-
Transactions with owners in their capacity as owners									
Dividends paid	33	-	-	-	-	-	-	(187)	(187)
Total transactions with owners in their capacity as owners		-	-	-	-	-	-	(187)	(187)
Balance at 30 June 2016		**936**	**2,057**	**(192)**	**13,824**	**130,043**	**146,668**	**274**	**146,942**

The accompanying notes form part of these financial statements.

Statements of Changes in Equity

for the year ended 30 June 2016

	Redeemed Preference Share Capital Account	Reserve for Credit Losses	Cash Flow Hedge Reserve	Asset Revaluation Reserve	Retained Earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000
Mutual Bank						
Balance at 1 July 2014	**898**	**1,878**	**(185)**	**-**	**118,431**	**121,022**
Comprehensive income for the year						
Profit for the year	-	-	-	-	6,473	6,473
Other comprehensive income	-	-	(13)	-	19	6
Total comprehensive income for the year	-	-	(13)	-	6,492	6,479
Transfers						
Transfers to general reserve	-	149	-	-	(149)	-
Transfers to redeemed preference share capital account	20	-	-	-	(20)	-
Total Transfers	20	149	-	-	(169)	-
Balance at 30 June 2015	**918**	**2,027**	**(198)**	**-**	**124,754**	**127,501**
Comprehensive income for the year						
Profit for the year	-	-	-	-	5,061	5,061
Other comprehensive income	-	-	6	13,824	(467)	13,363
Total comprehensive income for the year	-	-	6	13,824	4,594	18,424
Transfers						
Transfer to general reserve	-	30	-	-	(30)	-
Transfers to redeemed preference share capital account	18	-	-	-	(18)	-
Total Transfers	18	30	-	-	(48)	-
Balance at 30 June 2016	**936**	**2,057**	**(192)**	**13,824**	**129,300**	**145,925**

The accompanying notes form part of these financial statements.

Statements of Cash Flows

for the year ended 30 June 2016

	Note	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Cash Flows from Operating Activities					
Interest received		**61,852**	66,569	**61,852**	66,569
Dividends received		**695**	696	**1,258**	1,446
Fees and commissions received		**11,152**	10,179	**7,631**	6,687
Other income received		**914**	206	**1,160**	429
Interest paid		**(26,735)**	(32,182)	**(26,759)**	(32,209)
Payments to suppliers and employees		**(36,244)**	(35,402)	**(34,279)**	(33,395)
Net movement in financial assets at amortised cost		**37,057**	(5,586)	**37,057**	(5,586)
Net movement in loans and advances		**(48,512)**	(84,798)	**(48,512)**	(84,798)
Net movement in deposits		**25,408**	32,539	**25,530**	32,438
Net movement in medium term notes		**(6)**	20,035	**(6)**	20,035
Income taxes paid		**(3,127)**	(2,165)	**(2,679)**	(1,780)
Net cash provided by/(used in) operating activities	29(c)	**22,454**	(29,909)	**22,253**	(30,164)
Cash Flows from Investing Activities					
Payments for property, plant and equipment	16(b)	**(1,844)**	(1,937)	**(1,830)**	(1,932)
Payments for intangible assets	17(b)	**(602)**	(292)	**(602)**	(292)
Proceeds from sale of property, plant and equipment		**-**	28	**-**	28
Net cash provided by/(used in) investing activities		**(2,446)**	(2,201)	**(2,432)**	(2,196)
Cash Flows from Financing Activities					
Dividends paid by controlled entities to outside equity interests	33	**(187)**	(250)	**-**	-
Net cash provided by/(used in) financing activities		**(187)**	(250)	**-**	-
Net Increase/(Decrease) in Cash and Cash Equivalents		**19,821**	(32,360)	**19,821**	(32,360)
Cash and cash equivalents at beginning of year		**10,119**	42,479	**10,119**	42,479
Cash and Cash Equivalents at End of Year	29(a)	**29,940**	10,119	**29,940**	10,119

The accompanying notes form part of these financial statements.

1 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for:

(a) Revaluation of Land and Building

The Group re-assessed its accounting for property, plant and equipment with respect to measurement of land and building. The Group has previously measured all property, plant and equipment using the cost model whereby after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation.

On 1 January 2016 the Group elected to change the method of accounting for land and building since the Group believes that the revaluation model more effectively demonstrates the financial position of land and building.

Under the revaluation model land and building will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation. The Group applied the revaluation model prospectively, from 1 January 2016.

(b) New and Amended Standards and Interpretations

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

(c) New and Amended Standards and Interpretations not yet Adopted

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

(i) AASB 9 *Financial Instruments* (December 2014) (application date 30 June 2019)
The AASB has issued the complete AASB 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. This supersedes AASB 9 (issued in December 2009-as amended) and AASB 9 (issued in December 2010).

AASB 9 may have a potential increase in the Group's loans and advances provisioning. The change is applied retrospectively; however comparatives need not be retrospectively restated. Instead, the cumulative effect of applying the change for the first time is recognised as an adjustment to the opening balance of retained earnings on 1 July 2018.

However, the Group has not yet fully assessed the impact of AASB 9 (December 2014) as this standard does not apply mandatorily before 1 January 2018.

(ii) AASB 15 *Revenue from Contracts with Customers* (December 2014) (application date 30 June 2019)
The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Management have yet to assess the full impact of this Standard.

(iii) AASB 2015-2 (issued January 2015) *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101* (application date 30 June 2017)
Amends AASB 101 Presentation of Financial Statements to clarify that:

- Materiality applies to all primary financial statements and notes, and applies even to a list of specific, minimum disclosures
- Line items can be disaggregated if doing so could influence a user's decision
- Subtotals must be made up of items recognised in accordance with Australian Accounting Standards
- Additional subtotals in the Statement of Profit or Loss and Other Comprehensive Income must be reconciled back to subtotals required by AASB 101
- Notes no longer need to follow the order of items in the financial statements and related items can be grouped together (e.g. all financial instruments)
- Accounting policies can be placed at the end of the notes to the financial statements
- Share of other comprehensive income of associates and joint ventures must be separately classified into amounts that will be reclassified to profit or loss in future, and amounts that will not be reclassified to profit or loss in future.

These amendments affect presentation and disclosures only. Therefore on first time adoption of these amendments on 1 July 2016, comparatives will need to be restated in line with presentation and note ordering.

1 Changes in Accounting Policies (continued)

(c) New and Amended Standards and Interpretations not yet Adopted (continued)

(iv) AASB 16 *Leases* (application date 30 June 2020)

Except for short-term leases (less than 12 months from commencement date, including extension options), and 'low value' items, all leases will be capitalised on the balance sheet by recognising a 'right-of-use' asset and a lease liability for the present value of the obligation. This means that we will no longer see straight-line 'rental' expense in profit or loss (except for short-term leases and low value items). All leases will incur a front end loaded expense, comprising depreciation on the right-of-use asset, and interest on the lease liability. When initially measuring the right-of-use asset and lease liability, non-cancellable lease payments (including inflation-linked payments), as well as payments for option periods which the entity is reasonably certain to exercise, must be included in the present value calculation.

There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis.

Management have yet to assess the full impact of this Standard.

2 Statement of Significant Accounting Policies

The significant policies which have been adopted by the Group in the preparation of these financial statements are:

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

The financial statements cover QT Mutual Bank Limited as an individual entity (the Mutual Bank) and QT Mutual Bank Limited and subsidiaries as a Group (the Group or Economic Entity). QT Mutual Bank Limited is a company limited by shares, and is incorporated and domiciled in Australia. For the purposes of preparing the financial statements QT Mutual Bank Limited is a for-profit entity.

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

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of derivatives for which the fair value basis of accounting has been applied. Cost is based on the fair values of the consideration given in exchange for assets.

The presentation currency of the financial statements is Australian Dollars.

The financial statements were authorised for issue on 25 August 2016 by the Board of Directors.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Mutual Bank, being the parent entity, and its subsidiaries. The Mutual Bank and its subsidiaries together are referred to in these financial statements as the Group.

The names of the subsidiaries are contained in Note 13 to these financial statements. All subsidiaries have a 30 June financial year end and are accounted for by the Mutual Bank at cost.

<u>Subsidiaries</u>
Subsidiaries are all entities, including special purpose entities, over which the Group has control. The Group has control over an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to use its power to affect these returns. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The Group not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The existence and effect of potential voting rights where the Group has the practical ability to exercise them are considered when assessing whether the Group controls another entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

<u>Transaction eliminated at consolidation</u>
All inter-company balances and transactions between entities in the Group, including any unrealised profit or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the Group.

2 Statement of Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset available for sale. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Non-controlling interests

Non-controlling interests are allocated their share of total comprehensive income even if this results in the non-controlling interest having a debit balance. Non-controlling interests in the results and equity of subsidiaries are shown separately in the Group's Statements of Profit or Loss and Other Comprehensive Income and Statements of Financial Position, respectively.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of QT Mutual Bank Limited. If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Revenue

Loan interest revenue is calculated on the daily loan balance outstanding and is charged in arrears to the member's loan account on the last day of each month. Loan interest revenue is recognised as interest accrues using the effective interest rate method. The effective interest rate method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the asset.

When a loan is classified as impaired, the Mutual Bank generally ceases to recognise interest and other income earned but not yet received.

Loan interest is generally not brought to account if a loan has been transferred to a debt collection agency, or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospect of a contribution from the member is minimal. However, accrued interest may be recovered as part of the recovery of the debt.

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

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

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

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

(d) Leases and Make Good Provisions

Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. When the Group is the lessor in a lease agreement that transfers a significant portion of the risks and rewards of ownership to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

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

2 Statement of Significant Accounting Policies (continued)

(d) Leases and Make Good Provisions (continued)

Make Good Provisions

The Group is required under the terms of a lease to restore the leased premises at the end of the lease to its original condition. A provision has been recognised for the present value of the estimated expenditure required to demolish any leasehold improvements at the end of the lease. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the life of the lease. The estimated future costs of restoration are reviewed annually and adjusted as appropriate.

(e) Employee Benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to the end of the reporting period.

Short-term employee benefits

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

Long-term employee benefits

Liabilities for long service leave and annual leave are not expected to be settled within twelve months of the end of the reporting period. They are recognised as provisions for employee benefits and are measured at the present value of the expected future payments to be made in respect of services provided to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salary and wage increases, experience of employee departures and periods of service. Expected future payments are discounted using high quality corporate bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation – Accumulation Fund

Contributions are made by the Mutual Bank to an employees' superannuation fund and are charged as expenses when incurred. The Mutual Bank has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

Superannuation – Defined Benefit Fund

In respect of the defined benefit plan, the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted every three years, with interim valuations being performed on an annual basis. Consideration is given to any event that could impact the fund up to reporting date where the interim valuation is performed at an earlier date.

The amount recognised in the Statements of Financial Position represents the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date and any unrecognised past service cost. Any asset recognised is limited to the present value of available refunds and reductions in future contributions to the plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, in other comprehensive income.

The defined benefit plan was closed in March 2016.

(f) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised in full, using the liability method, on temporary differences, between carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The Mutual Bank has formed an income tax consolidation group under the Tax Consolidation System for the whole financial year. The Mutual Bank is the head entity in the tax consolidated group. The stand-alone taxpayer within a group approach has been used to allocate current income tax expense and deferred tax balances to the entities that form part of the tax consolidated group.

2 Statement of Significant Accounting Policies (continued)

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statements of Financial Position are shown inclusive of GST.

(h) Financial Assets and Financial Liabilities

Introduction

(i) Initial recognition
The Group initially recognises loans and advances to members and deposits on the date that they are originated. All other financial assets and financial liabilities are initially recognised on trade date when the related contractual rights or obligations exist.

(ii) De-recognition
The Group de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual 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 economic entity is recognised as a separate asset or liability.

The Group de-recognises a financial liability when its contractual obligations are discharged or cancelled or when they expire. For details of the Group's policy on securitisation refer to Note 2(s).

(iii) Off-setting
Financial assets and financial liabilities are set off and the net amount presented in the Statements of Financial Position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the financial liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

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

(v) Identification and measurement of impairment
Refer sub-notes below and Note 2(i) for details.

<u>Cash and cash equivalents</u>
Cash and cash equivalents include cash on hand, unrestricted balances held with Authorised Deposit Taking Institutions (ADIs) and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of changes in their value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statements of Financial Position.

<u>Loans and advances to members</u>
Loans and advances to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method and net of any impairment loss.

The Group's policy on impairment of loans and advances is the same as that applied in previous years. Refer to Note 2(i) for details.

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

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

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

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

2 Statement of Significant Accounting Policies (continued)

(h) Financial Assets and Financial Liabilities (continued)

(ii) Fair Value

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

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

Deposits

Refer Note 2(n) for details.

Borrowings

Refer Note 2(p) for details.

(i) Impairment - Loans and Advances

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

Impairment losses on loans and advances are measured as the difference between the carrying amount of loans and advances and the present value of estimated future cash flows (excluding further credit losses that have not been incurred) discounted at the loan and advances original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

When a subsequent event causes the amount of the impairment loss to decrease, the decrease in the impairment loss is reversed through profit or loss.

The amount provided for impairment of loans is determined by management and the Board. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the Mutual Bank. Management and the Board also make a provision for loans in arrears where the collectability of the debt is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impractical. The critical assumptions used in the calculation are set out in Note 15. Note 39 details the credit risk management approach to loan impairment.

A reserve for credit losses is maintained to cover risks inherent in the loan portfolio. Movements in the reserve for credit losses are recognised as an appropriation of retained earnings.

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

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

Renegotiated loans are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members. These facilities are classified as either past due or impaired contingent upon the security held.

(j) Property, Plant and Equipment

Plant and equipment are brought to account at cost, less, where applicable, accumulated depreciation and any impairment losses.

Land and building are measured at fair value less accumulated depreciation on building since the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the fair value does not differ materially from its carrying amount. Revaluation adjustments are reflected in the asset revaluation reserve, except to the extent they reverse a revaluation decrease of the same asset previously recognised in the Profit or Loss. Upon sale or disposal, realised amounts in the asset revaluation reserve are transferred to retained earnings.

Items of property, plant and equipment, including building, but excluding freehold land, are depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Depreciation is calculated on a straight line basis. The rates used are as follows:

Building	3.3%	Motor Vehicles	20%
Computer Hardware	30%	Office Furniture and Equipment	15%
Leasehold Improvements	10% (or the unexpired term of the lease whichever is shorter).		

Assets under $100 are not capitalised.

2 Statement of Significant Accounting Policies (continued)

(j) Property, Plant and Equipment (continued)

The assets' residual values and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the assets' employment and subsequent disposal. Any decrement in the carrying amount is recognised as an impairment expense in profit or loss in the reporting period in which the impairment loss occurs. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

(k) Non-current assets held for sale

Non-current assets are held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on initial classification as held for sale, and subsequent gains and losses on measurement are recognised in profit or loss.

Once classified as non-current assets held for sale, intangible assets, property, plant and equipment are no longer amortised or depreciated.

(l) Impairment Testing of Assets (excluding Financial Assets)

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(m) Intangibles

Computer Software

Items of computer software which are not integral to the computer hardware owned by the Group are classified as intangible assets. Computer software has a finite life and accordingly, is amortised on a straight line basis over the expected useful life of the software. Amortisation rates ranging from 14.3% to 33.3% are applied.

(n) Deposits

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

Interest on deposits is recognised on an accruals basis. Interest accrued at reporting date is shown as part of deposits.

(o) Medium term notes

Medium term notes are accounted for in the same way as deposits, refer to Note 2(n).

(p) Borrowings

Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

(q) Derivative Instruments held for Risk Management Purposes

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations.

Derivatives used for risk management purposes are measured at fair value in the Statements of Financial Position. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, derivatives are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of the changes in the fair value of the derivative is recognised in other comprehensive income in the cash flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If a derivative expires, or is sold, terminated, exercised, or no longer meets the qualifying criteria, then hedge accounting is discontinued. The balance in the cash flow hedge reserve relating to these circumstances is reclassified to profit or loss as a reclassification adjustment.

For further details of interest rate swaps used by the Group refer to Note 24.

2 Statement of Significant Accounting Policies (continued)

(r) Fair Values

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the group.

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

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

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

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

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

(s) Securitisation

Where the Group enters into transactions that transfer substantially all the risks and rewards of ownership of the transferred assets, the Group de-recognises the transferred assets.

Where a third party originator enters into a transaction and funds that transaction and the Group does not carry the risks and rewards of ownership, the Group does not recognise the asset.

Where the Group enters into transactions that transfer assets recognised on its Statements of Financial Position, but retains substantially all of the risks and rewards of ownership of the transferred assets, the transferred assets are not de-recognised.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement.

(t) Rounding of Amounts

The amounts contained in these financial statements have been rounded off in accordance with the option available to the Mutual Bank under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Mutual Bank is an entity to which the Class Order applies. The Mutual Bank is permitted to round to the nearest one thousand dollars ($'000) for all amounts except prescribed disclosures which are shown in whole dollars.

(u) Accounting Estimates and Judgements

Management have made critical accounting estimates when applying the Group's accounting policies with respect to the impairment of loans – refer Note 15.

Management have made significant judgements when applying the Group's accounting policies with respect to loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 38.

Notes to the Financial Statements

for the year ended 30 June 2016

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
3 Interest Income and Interest Expense				
(a) Interest income				
(i) Assets at amortised cost				
Cash and cash equivalents	**305**	501	**305**	501
Other financial assets	**5,284**	6,922	**5,284**	6,922
Loans and advances	**55,553**	57,745	**55,553**	57,745
Other	**-**	5	**-**	5
	61,142	65,173	**61,142**	65,173
(ii) Assets at fair value				
Derivatives	**515**	1,298	**515**	1,298
Total interest income	**61,657**	66,471	**61,657**	66,471
(b) Interest expense				
(i) Liabilities at amortised cost				
Deposits	**25,228**	29,355	**25,252**	29,381
Borrowings	**27**	300	**27**	300
	25,255	29,655	**25,279**	29,681
(ii) Liabilities at fair value				
Derivatives	**685**	1,609	**685**	1,609
Total interest expense	**25,940**	31,264	**25,964**	31,290
4 Other Revenue and Income				
Dividends:				
Subsidiary corporations (Note 13)	**-**	-	**563**	750
Other corporations	**695**	696	**695**	696
Insurance commissions	**1,870**	1,854	**1,870**	1,854
Financial planning fees and commissions	**3,792**	3,837	**-**	-
Loan fee income	**689**	636	**689**	636
ATM fee income	**21**	26	**21**	26
Other fee and commission income	**4,283**	4,514	**4,321**	4,529
Bad debts recovered	**55**	104	**55**	104
Other	**925**	219	**1,172**	443
Total other revenue and income	**12,330**	11,886	**9,386**	9,038

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
5 Profit before Income Tax Expense				
Profit before income tax expense has been determined after the following items:				
Non-Interest Expenses				
Impairment losses on loans and advances	**325**	240	**325**	240
Fees and commissions	**4,819**	4,786	**4,576**	4,517
Depreciation:				
Building (Note 16b)	**233**	323	**233**	323
Plant and equipment (Note 16b)	**470**	546	**457**	532
Leasehold improvements (Note 16b)	**538**	563	**538**	563
Amortisation of computer software (Note 17b)	**922**	837	**922**	837
Net loss on disposal of property, plant and equipment	**25**	21	**25**	21
Rental expense on operating leases	**2,042**	1,969	**2,037**	1,963
Employee benefits expense	**18,415**	17,722	**16,863**	16,130
Superannuation:				
Defined benefit plan	**234**	109	**234**	109
Accumulation fund	**836**	970	**791**	933
Fringe benefits tax	**233**	318	**216**	287
General administration	**11,513**	9,656	**11,137**	9,326
Total non-interest expenses	**40,605**	38,060	**38,354**	35,781
6 Income Tax Expense				
(a) Numerical reconciliation of income tax expense to prima facie tax payable:				
Tax at the Australian tax rate of 30% (2015: 30%)	**2,233**	2,710	**2,018**	2,531
Add: Tax effect of:				
Non-deductible expenses	**23**	14	**22**	13
Other	**1**	(145)	**1**	(145)
Less: Tax effect of:				
Tax offset for franked dividends	**209**	209	**377**	434
Other	**-**	-	**-**	-
Income tax expense	**2,048**	2,370	**1,664**	1,965
(b) Major components of income tax expense:				
Current tax	**2,826**	2,394	**2,437**	1,971
Deferred tax	**(778)**	121	**(773)**	139
Under/ Overprovision for tax in prior years	**-**	(145)	**-**	(145)
	2,048	2,370	**1,664**	1,965
(c) Income tax expense relating to items of other comprehensive income:				
Defined benefit superannuation fund	**(200)**	8	**(200)**	8
Cash flow hedges	**3**	(6)	**3**	(6)
Net gain on revaluation of land and building	**5,924**	-	**5,924**	-
	5,727	2	**5,727**	2
(d) Franking credits are as follows:				
Balance of franking account at year end adjusted for franking credits or debits arising from the provision for income tax, dividends payable or dividends receivable at the end of the reporting date based on a tax rate of 30% (2015: 30%)	**51,833**	48,858	**51,392**	48,417

As the Mutual Bank pays no dividend, franking credits will not be used in the following year. Refer to Note 33 for details of dividends paid by controlled entities to outside equity interests.

7 Directors and other Key Management Personnel

(a) Remuneration of Key Management Personnel

Key Management Personnel have been taken to comprise the Directors and the members of the Executive Committee who are collectively responsible for the day-to-day financial and operational management of the economic entity and the Mutual Bank.

Compensation of the economic entity and the Mutual Bank Key Management Personnel in total and for each of the following categories was as follows:

	Directors		Other Key Management Personnel	
	2016 $	2015 $	**2016 $**	2015 $
Short-term employee benefits	**387,240**	330,049	**2,507,008**	2,398,149
Post-employment benefits	**86,190**	78,756	**172,914**	190,126
Other long-term benefits	**-**	-	**118,575**	208,383
Termination benefits	**-**	-	**391,185**	-
Total	**473,430**	408,805	**3,189,682**	2,796,658

Remuneration to Directors was approved by the members at the previous Annual General Meeting of the Mutual Bank.

	Economic Entity		Mutual Bank	
	2016 $	2015 $	**2016 $**	2015 $
(b) Loans to Key Management Personnel and their Close Family Members				
The aggregate value of loans at year end	**3,864,793**	3,273,188	**3,864,793**	3,273,188
The aggregate value of revolving credit facilities at year end	**162,000**	157,500	**162,000**	157,500
Amounts drawn down included in the aggregate value	**(34,505)**	(9,093)	**(34,505)**	(9,093)
Net balance available at year end	**127,495**	148,407	**127,495**	148,407
During the year the aggregate value of revolving credit facility limits granted or increased amounted to:	**-**	-	**-**	-
There are no loans that are impaired in relation to the loan balances with Key Management Personnel or their close family members.				
Interest and other revenue earned on loans and revolving credit facilities during the year	**147,450**	56,678	**147,450**	56,678
All loans and overdrafts made, guaranteed or secured to Key Management Personnel and their close family members have been made on normal terms and conditions.				
The terms and conditions in respect of all loans and overdrafts to Key Management Personnel and their close family members have not been breached.				
(c) Other Transactions with Key Management Personnel and their Close Family Members				
Total value of term deposits and savings accounts at year end	**1,646,425**	1,023,114	**1,646,425**	1,023,114
Total interest paid on these deposits during the year	**34,083**	11,658	**34,083**	11,658

Interest on deposits has been paid on terms and conditions no more favourable than those available on similar transactions to members of the Mutual Bank.

The Mutual Bank's policy for receiving deposits from other related parties and in respect of other related party transactions is that all transactions are approved and deposits are accepted on the same terms and conditions that apply to members for each type of deposit.

There were no other benefits paid or payable to Key Management Personnel or their close family members.

There are no service contracts to which Key Management Personnel or their close family members are interested parties.

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
8 Auditors' Remuneration				
Amounts received or due and receivable by the auditor for:				
Auditing the financial statements	**155**	150	**143**	139
Report to APRA under APS 310	**35**	36	**35**	36
Taxation services	**22**	20	**15**	14
Other services	**-**	9	**-**	8
	212	215	**193**	197
9 Cash and Cash Equivalents				
Cash on hand	**773**	819	**773**	819
Cash at bank	**29,167**	13,838	**29,167**	13,838
	29,940	14,657	**29,940**	14,657
10 Other Receivables				
Accrued interest	**665**	860	**665**	860
Loans to related entities (Notes 13)	**-**	-	**24**	13
Other receivables	**793**	1,467	**207**	881
	1,458	2,327	**896**	1,754
11 Financial Assets At Fair Value through Other Comprehensive Income				
Shares in subsidiaries	**-**	-	**75**	75
Shares in Cuscal Limited (a)	**2,449**	2,449	**2,449**	2,449
Shares in C U Technology Development Limited	**17**	17	**17**	17
Shares in TransAction Solutions Pty Ltd	**534**	534	**534**	534
	3,000	3,000	**3,075**	3,075
Amount of equity investments expected to be recovered more than 12 months after the reporting date	**3,000**	3,000	**3,075**	3,075

(a) Shares in Cuscal Limited

The fair value of financial assets that are not traded in a active market is determined using valuation technique. The Group uses its judgement to select a variety of methodology and make assumptions that are mainly based on market condition existing at the end of each reporting period. This company provides transactional banking and balance sheet management services to various financial institutions across Australia. The shares are not publicly traded and are not redeemable.

The financial statements of Cuscal record net tangible assets backing for these shares exceeding their cost value. Based on the net assets of Cuscal any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
12 Financial Assets at Amortised Cost				
Deposits with ADIs	**141,440**	178,497	**141,440**	178,497
Amount of financial assets at amortised cost expected to be recovered more than 12 months after the reporting date	**86,500**	87,500	**86,500**	87,500

13 Subsidiaries

The parent entity is QT Mutual Bank Limited. Details in relation to its subsidiaries are:

Name	Country of incorporation	Percentage owned 2016 %	2015 %
QT Financial Planning Pty Ltd	Australia	**75**	75
Arrow Funding Trust	Australia	**100**	100

	Mutual Bank 2016 $'000	2015 $'000
(a) Transactions with subsidiaries		
The following transactions occurred with subsidiaries:		
Provision of services		
Provision of services to subsidiaries	**159**	158
Services provided to subsidiaries were on commercial terms		
Interest expense	**24**	26
Dividends received (Note 4)	**563**	750
Outstanding balances		
The following balances are outstanding at the end of the reporting period in relation to transactions with subsidiaries:		
Current receivables		
Loans to subsidiaries	**24**	13
Current payables		
Deposits	**831**	673

Amounts receivable from subsidiaries for provision of services for rent, legal and payroll services are unsecured and interest free and are included in the balances of other receivables of the Mutual Bank (refer Note 10). Deposits are interest bearing and under normal terms and conditions (refer Note 22).

(b) Review of subsidiaries operations

QT Financial Planning Pty Ltd

The company's operations for the year ended 30 June 2016 produced a profit of $1,280,248 before tax (2015: $1,346,584). An increase in other expenses of 6.2% was the major factor contributing to the decrease in profit compared to last year. Dividends of $750,000 were declared and paid by the Directors of QT Financial Planning Pty Ltd during the financial year (2015: $1,000,000).

14 Loans and Advances

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Overdrafts	**40,877**	43,632	**40,877**	43,632
Term loans	**1,186,225**	1,135,186	**1,186,225**	1,135,186
Gross loans and advances	**1,227,102**	1,178,818	**1,227,102**	1,178,818
Unamortised loan fees	**71**	52	**71**	52
Provision for impairment	**(280)**	(164)	**(280)**	(164)
Net loans and advances	**1,226,893**	1,178,706	**1,226,893**	1,178,706
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	**984,132**	944,794	**984,132**	944,794

15 Impairment of Loans and Advances

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
(a) Provision for Impairment				
Opening balance	**164**	112	**164**	112
Impairment expense	**325**	240	**325**	240
Bad debts written off	**(209)**	(188)	**(209)**	(188)
Closing balance - refer (e)	**280**	164	**280**	164

During the year and the prior year, no bad debts have been written off directly to profit or loss.

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
(b) Provision for Impairment Calculation				
Provision prescribed by Prudential Standards	**240**	144	**240**	144
Additional specific provision	**40**	20	**40**	20
Closing balance	**280**	164	**280**	164

In the course of the preparation of these financial statements, the Mutual Bank has determined the likely impairment loss on loans and overdrafts which have not maintained repayments in accordance with the loan contract, or where there is other evidence of impairment such as bankruptcy or debt arrangements. A reserve for credit losses is also maintained to cover the risk inherent in the loan portfolio. In assessing the level of this reserve, appropriate account is taken of the historical losses arising in past years, together with factors such as industrial restructuring, job losses or economic circumstances.

The provision for impairment is calculated firstly on a portfolio basis using the length of time the loan or overdraft is in arrears. Additional provision is then calculated on individual accounts where circumstances indicate that this is warranted. The provision calculated on a portfolio basis is as prescribed by the Prudential Standards and is broadly the following basis:

Portfolio	**Period of impairment**	**% of balance**
Well secured residential mortgage loans and overdrafts	Any	0
Residential mortgage secured loans with LVR's between 80% and 100%	14 days to 89 days	0
	90 days to 181 days	5
	182 days to 272 days	10
	273 days to 364 days	15
	Over 364 days	20
Other secured and unsecured loans	14 days to 89 days	0
	90 days to 181 days	40
	182 days to 272 days	60
	273 days to 364 days	80
	Over 364 days	100
Unsecured overdrafts and overdrawn facility limits	14 days to 89 days	40
	90 days to 181 days	75
	182 days to 272 days	100
	273 days to 364 days	100
	Over 364 days	100

(c) Assets Acquired from Loan Recovery

No assets were acquired by the economic entity during the financial year. The policy of the economic entity is to sell the assets via auction at the earliest opportunity, after the measures to assist the members to repay debts have been exhausted.

15 Impairment of Loans and Advances (continued)

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
(d) Loans and Advances by Impairment Class				
Net impaired loans - refer (e)	**373**	121	**373**	121
Past due but not impaired - refer (f)	**44,340**	40,198	**44,340**	40,198
Neither past due nor impaired - refer (g)	**1,182,109**	1,138,335	**1,182,109**	1,138,335
Unamortised loan fees	**71**	52	**71**	52
Net loans and advances	**1,226,893**	1,178,706	**1,226,893**	1,178,706
(e) Impaired Loans and Advances at Reporting Date				
Individually impaired loans and advances	**653**	285	**653**	285
Provision for impairment	**(280)**	(164)	**(280)**	(164)
Carrying amount	**373**	121	**373**	121
Individually impaired loans and advances at reporting date:				
Loans by purpose				
Housing loans	**240**	-	**240**	-
Revolving credit	**234**	150	**234**	150
Personal loans	**179**	135	**179**	135
Commercial loans	**-**	-	**-**	-
Provision for impairment - refer (a)	**(280)**	(164)	**(280)**	(164)
Carrying amount	**373**	121	**373**	121
Aging analysis				
Past due 1-89 days in arrears	**90**	52	**90**	52
Past due 90-181 days in arrears	**66**	56	**66**	56
Past due 182-272 days in arrears	**13**	13	**13**	13
Past due 273-364 days in arrears	**204**	-	**204**	-
Past due 365 days and over in arrears	**-**	-	**-**	-
Carrying amount	**373**	121	**373**	121

(f) Past Due but not Impaired Loans and Advances at Reporting Date

These loans and advances are not considered impaired as either the exposure is well secured or, if an unsecured loan, is not in arrears by 90 days or more or, if an overdraft facility, is not in arrears by 14 days or more.

Past due values are the 'on-balance sheet' loan balances.

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Loans by purpose				
Housing loans	**40,287**	36,139	**40,287**	36,139
Revolving credit	**3,231**	3,133	**3,231**	3,133
Personal loans	**822**	926	**822**	926
Commercial loans	**-**	-	**-**	-
Carrying amount	**44,340**	40,198	**44,340**	40,198
Aging analysis				
Past due 1-89 days in arrears	**40,839**	36,077	**40,839**	36,077
Past due 90-181 days in arrears	**2,626**	3,526	**2,626**	3,526
Past due 182-272 days in arrears	**314**	595	**314**	595
Past due 273-364 days in arrears	**356**	-	**356**	-
Past due 365 days and over in arrears	**205**	-	**205**	-
Carrying amount	**44,340**	40,198	**44,340**	40,198

15 Impairment of Loans and Advances (continued)

(g) Neither Past Due nor Impaired Loans and Advances at Reporting Date

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Loans by purpose				
Housing loans	**1,138,179**	1,090,612	**1,138,179**	1,090,612
Revolving credit	**9,418**	10,511	**9,418**	10,511
Personal loans	**27,679**	29,892	**27,679**	29,892
Commercial loans	**6,833**	7,320	**6,833**	7,320
Carrying amount	**1,182,109**	1,138,335	**1,182,109**	1,138,335

(h) Collateral Held

The Mutual Bank holds collateral against loans and advances to customers as detailed below:

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Loans and advances with collateral	**1,203,945**	1,153,246	**1,203,945**	1,153,246
Loans and advances with no collateral	**23,157**	25,572	**23,157**	25,572
Total gross loans and advances	**1,227,102**	1,178,818	**1,227,102**	1,178,818

Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance. The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired.

16 Property, Plant and Equipment

(a) Carrying Amounts

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Land and building - at cost	**10,006**	9,974	**10,006**	9,974
Accumulated depreciation	**(7,003)**	(6,769)	**(7,003)**	(6,769)
Net revaluations	**19,748**	-	**19,748**	-
Reclassification to non-current assets held for sale	**(22,751)**	-	**(22,751)**	-
	-	3,205	**-**	3,205
Leasehold improvements - at cost	**4,734**	4,597	**4,734**	4,597
Accumulated depreciation	**(2,287)**	(2,025)	**(2,287)**	(2,025)
	2,447	2,572	**2,447**	2,572
Plant and equipment - at cost	**9,050**	7,729	**8,789**	7,448
Accumulated depreciation	**(6,400)**	(5,984)	**(6,167)**	(5,730)
	2,650	1,745	**2,622**	1,718
	5,097	7,522	**5,069**	7,495

16 Property, Plant and Equipment (continued)

(b) Movements in Carrying Amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the financial year are set out below.

	Land	Building	Plant and Equipment	Leasehold Improvements	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Economic Entity 2016					
Balance at beginning of financial year	**652**	**2,553**	**1,745**	**2,572**	**7,522**
Additions	**-**	**31**	**1,376**	**437**	**1,844**
Disposals/de-recognitions	**-**	**-**	**(1)**	**(24)**	**(25)**
Depreciation expense	**-**	**(233)**	**(470)**	**(538)**	**(1,241)**
Net revaluations	**14,136**	**5,612**	**-**	**-**	**19,748**
Reclassification to non-current assets held for sale	**(14,788)**	**(7,963)**	**-**	**-**	**(22,751)**
Carrying amount at end of financial year	**-**	**-**	**2,650**	**2,447**	**5,097**
Mutual Bank 2016					
Balance at beginning of financial year	**652**	**2,553**	**1,718**	**2,572**	**7,495**
Additions	**-**	**31**	**1,362**	**437**	**1,830**
Disposals/de-recognitions	**-**	**-**	**(1)**	**(24)**	**(25)**
Depreciation expense	**-**	**(233)**	**(457)**	**(538)**	**(1,228)**
Net revaluations	**14,136**	**5,612**	**-**	**-**	**19,748**
Reclassification to non-current assets held for sale	**(14,788)**	**(7,963)**	**-**	**-**	**(22,751)**
Carrying amount at end of financial year	**-**	**-**	**2,622**	**2,447**	**5,069**
Economic Entity 2015					
Balance at beginning of financial year	652	2,869	1,586	1,960	7,067
Additions	-	7	731	1,199	1,937
Disposals/de-recognitions	-	-	(26)	(24)	(50)
Depreciation expense	-	(323)	(546)	(563)	(1,432)
Carrying amount at end of financial year	652	2,553	1,745	2,572	7,522
Mutual Bank 2015					
Balance at beginning of financial year	652	2,869	1,549	1,960	7,030
Additions	-	7	726	1,199	1,932
Disposals/de-recognitions	-	-	(25)	(24)	(49)
Depreciation expense	-	(323)	(532)	(563)	(1,418)
Carrying amount at end of financial year	652	2,553	1,718	2,572	7,495

(c) Non-current assets held for sale

The Group signed a Put and Call Option Deed effective 18 May 2016 to sell the land and building at 454 St. Pauls Terrace, Fortitude Valley, Qld 4006. Consequently land and building were reclassified as non-current assets held for sale and stated at their fair value less cost to sell. The fair value is measured at $22.75M being the sale price as per the Put and Call Option. The sale is expected to be completed next financial year.

Land and building is carried at fair value based on the sale price as per the Put and Call Option. This fair value falls under the Level 3 category of the fair value hierarchy as defined in Note 35(a).

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
17 Intangible Assets				
(a) Carrying Amounts				
Software licences - at cost	**11,162**	10,561	**11,162**	10,561
Accumulated amortisation	**(8,813)**	(7,892)	**(8,813)**	(7,892)
	2,349	2,669	**2,349**	2,669
(b) Movements in Carrying Amounts				
Reconciliations of the carrying amounts of computer software between the beginning and end of the financial year are set out below.				
Balance at beginning of financial year	**2,669**	3,214	**2,669**	3,214
Additions	**602**	292	**602**	292
Amortisation expense	**(922)**	(837)	**(922)**	(837)
Carrying amount at end of financial year	**2,349**	2,669	**2,349**	2,669
18 Other Assets				
Prepayments	**1,139**	910	**1,111**	881
19 Other Payables				
Annual leave	**1,089**	1,125	**972**	1,015
Creditors and accrued expenses	**3,151**	1,693	**3,036**	1,592
Bonus payable	**1,285**	1,263	**1,232**	1,201
Other liabilities	**715**	560	**715**	560
	6,240	4,641	**5,955**	4,368
20 Borrowings				
Overdraft	**-**	4,538	**-**	4,538

Refer Note 30 for details of the Mutual Bank's borrowing facility arrangements.

21 Taxation

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
(a) Current income tax payable/(receivable)	**(371)**	(70)	**(486)**	(244)
(b) Deferred tax liabilities comprise:				
Amounts recognised in profit or loss				
Make good asset	**61**	55	**61**	55
Other	**(20)**	-	**(20)**	-
	41	55	**41**	55
Amounts recognised in other comprehensive income				
Asset Revaluation Reserve	**5,924**	-	**5,924**	-
Total deferred tax liabilities	**5,965**	55	**5,965**	55
(c) Deferred tax assets comprise:				
Amounts recognised in profit or loss				
Impaired asset provision	**84**	49	**84**	49
Employee benefit obligations	**861**	831	**778**	756
Depreciation and amortisation	**852**	795	**839**	780
Make good provision	**133**	114	**133**	114
Other	**908**	293	**867**	251
	2,838	2,082	**2,701**	1,950
Amounts recognised in other comprehensive income				
Employee benefit obligations	**200**	(8)	**200**	(8)
Cash flow hedge reserve	**82**	85	**82**	85
	282	77	**282**	77
Total deferred tax assets	**3,120**	2,159	**2,983**	2,027
(d) Gross movements				
The overall movement in the deferred tax accounts is as follows:				
Opening balance	**2,104**	2,227	**1,972**	2,113
(Charge)/credit to profit or loss	**778**	(121)	**773**	(139)
(Charge)/credit to other comprehensive income	**(5,727)**	(2)	**(5,727)**	(2)
Closing balance	**(2,845)**	2,104	**(2,982)**	1,972
(e) Deferred tax liabilities				
The movement in each temporary difference during the year is as follows:				
Make good asset				
Opening balance	**(55)**	(57)	**(55)**	(57)
(Charge)/credit to profit or loss	**(6)**	2	**(6)**	2
Closing balance	**(61)**	(55)	**(61)**	(55)
Asset Revaluation Reserve				
Opening balance	**-**	-	**-**	-
Charge/(credit) to other comprehensive income	**(5,924)**	-	**(5,924)**	-
Closing balance	**(5,924)**	-	**(5,924)**	-
Other				
Opening balance	**-**	-	**-**	-
Charge/(credit) to profit or loss	**20**	-	**20**	-
Closing balance	**20**	-	**20**	-

21 Taxation (continued)

(f) Deferred tax assets

The movement in each temporary difference during the year is as follows:

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Impaired asset provision				
Opening balance	**49**	34	**49**	34
(Charge)/credit to profit or loss	**35**	15	**35**	15
Closing balance	**84**	49	**84**	49
Employee benefit obligations				
Opening balance	**823**	724	**748**	665
(Charge)/credit to profit or loss	**38**	107	**30**	91
(Charge)/credit to other comprehensive income	**200**	(8)	**200**	(8)
Closing balance	**1,061**	823	**978**	748
Depreciation and amortisation				
Opening balance	**795**	759	**780**	741
(Charge)/credit to profit or loss	**57**	36	**59**	39
Closing balance	**852**	795	**839**	780
Make good provision				
Opening balance	**114**	110	**114**	110
(Charge)/credit to profit or loss	**19**	4	**19**	4
Closing balance	**133**	114	**133**	114
Cash flow hedge reserve				
Opening balance	**85**	79	**85**	79
(Charge)/credit to other comprehensive income	**(3)**	6	**(3)**	6
Closing balance	**82**	85	**82**	85
Other				
Opening balance	**293**	577	**251**	541
(Charge)/credit to profit or loss	**615**	(284)	**616**	(290)
Closing balance	**908**	293	**867**	251

22 Deposits

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Call deposits	**693,199**	631,048	**694,091**	631,818
Negotiable certificates of deposit	**97,603**	125,104	**97,603**	125,104
Term deposits	**464,892**	474,925	**464,892**	474,925
Withdrawable shares	**683**	687	**683**	687
	1,256,377	1,231,764	**1,257,269**	1,232,534
Amount of deposits expected to be settled more than 12 months after the reporting date	**18,661**	16,821	**18,661**	16,821

The deposit portfolio of the Mutual Bank does not include any deposit which represents 10% or more of total liabilities.

23 Medium Term Notes

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Medium Term Notes	**20,029**	20,035	**20,029**	20,035
Amount of deposits expected to be settled more than 12 months after the reporting date	**20,029**	20,035	**20,029**	20,035

The medium term notes portfolio of the mutual bank does not include any notes which represents 10% or more of total liabilities.

24 Derivatives

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Interest rate swap contracts - cash flow hedges net of interest accrual	**274**	283	**274**	283

Interest rate swap contracts - cash flow hedges
Refer to Note 39 for the Mutual Bank's market risk and hedging policy.

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Less than 1 year	**-**	16,000	**-**	16,000
1 - 2 years	**20,000**	20,000	**20,000**	20,000
2 - 3 years	**-**	-	**-**	-
	20,000	36,000	**20,000**	36,000

In respect of the monthly interest rate swap contracts, the fixed interest rates were on average 0.69% above and the variable rates were on average 0.04% below the 30 day bank bill rate, which at the end of the reporting date was 1.89% (2015: 2.08%). The contracts require settlement of net interest receivable or payable every 30 days. The contracts are settled on a net basis.

The gains or losses from restating the interest rate swap contracts at fair value are recognised in other comprehensive income and accumulated in the cash flow hedge reserve to the extent that the hedge is effective, and brought to account as profit or loss when the hedged interest expense is recognised. The ineffective portion is recognised in profit or loss immediately. During the year ended 30 June 2016, there was no reclassification to profit or loss (2015: $Nil).

25 Provisions

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Employee benefits	**1,220**	1,116	**1,065**	978
Make good provision	**443**	380	**443**	380
	1,663	1,496	**1,508**	1,358

26 Redeemed Preference Share Capital Account

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

27 Reserves

(a) Reserve for credit losses
The reserve for credit losses is a general provision and is maintained to comply with the Prudential Standards as set down by APRA.

(b) Cash flow hedge reserve
The cash flow hedge reserve records unrealised gains or losses on a hedging instrument in a cash flow hedge. Amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.

(c) Asset revaluation reserve
The asset revaluation reserve records revaluations of non-current assets.

28 Non-Controlling Interests

	Economic Entity 2016 $'000	Economic Entity 2015 $'000	Mutual Bank 2016 $'000	Mutual Bank 2015 $'000
Non-controlling interests in:				
Issued capital	**25**	25	**-**	-
Retained earnings	**249**	212	**-**	-
	274	237	**-**	-

29 Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and 'at call' deposits with other financial institutions, net of overdrafts. Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Cash and cash equivalents	**29,940**	14,657	**29,940**	14,657
Overdraft	**-**	(4,538)	**-**	(4,538)
	29,940	10,119	**29,940**	10,119

(b) Cash Flows Presented on a Net Basis

Cash flows arising from the following activities are presented on a net basis in the Statements of Cash Flows:
- deposits in and withdrawals from savings and other deposit accounts;
- investments and maturities of financial assets held-to-maturity; and
- provision of member loans and the repayment of such loans.

(c) Reconciliation of Cash Flows provided by Operating Activities to Profit after Income Tax

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Profit after income tax expense	**5,394**	6,663	**5,061**	6,473
Increase/(decrease) in interest payable	**(795)**	(919)	**(795)**	(919)
(Increase)/decrease in interest receivable	**195**	96	**195**	96
Net movement in financial assets at amortised cost	**37,058**	(5,586)	**37,058**	(5,586)
Net movement in loans and advances	**(48,512)**	(84,798)	**(48,512)**	(84,798)
Loss on disposal of property, plant and equipment	**25**	21	**25**	21
Net movement in deposits	**25,408**	32,539	**25,530**	32,438
Net movement in medium term notes	**(6)**	20,035	**(6)**	20,035
(Increase)/decrease in receivables and prepayments	**445**	(606)	**433**	(518)
Increase/(decrease) in accrued expenses	**1,708**	83	**1,695**	119
Increase/(decrease) in other liabilities	**155**	96	**155**	96
Increase/(decrease) in provisions:				
Provision for impairment	**325**	240	**325**	240
Provision for employee benefits	**104**	(263)	**88**	(317)
Other provisions	**63**	14	**63**	14
Depreciation and amortisation	**2,163**	2,269	**2,150**	2,255
Increase/(decrease) in provision for income tax	**(301)**	84	**(242)**	46
(Increase)/decrease in deferred tax balances	**(975)**	123	**(970)**	141
Net cash provided by operating activities	**22,454**	(29,909)	**22,253**	(30,164)

30 Borrowing Facilities

The Mutual Bank has the following borrowing facility with Cuscal Limited:

	Approved Facility $'000	Current Borrowings $'000	Net Available $'000
2016			
Overdraft facility	**10,000**	**-**	**10,000**
2015			
Overdraft facility	10,000	4,538	5,462

This facility is secured by a fixed and floating charge over all of the assets of the Mutual Bank.

There are no other restrictions in relation to this borrowing facility.

31 Contingent Liabilities

(a) Put and Call Option Agreement

SFG Australia Limited ('SFG') holds a 25% interest in the financial planning subsidiary QT Financial Planning Pty Ltd ('QTFP'). The arrangements entered into between the Mutual Bank and SFG in relation to QTFP include a put and call agreement. This agreement gives both the Mutual Bank and SFG certain powers in respect of SFG's shareholding in QTFP. Under the agreement, SFG has the ability to put its shares in QTFP to the Mutual Bank and similarly, the Mutual Bank has the power to call SFG's shares in QTFP back to the Mutual Bank. These powers become exercisable upon the occurrence of certain events within the suite of agreements supporting these arrangements.

The probability of the exercising of this option is considered to be low. The impact of the option exercise would be a requirement for QTMB to purchase SFG's QTFP shares at a fair market value.

32 Commitments

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
(a) Future Capital Commitments				
Commitments for the purchase of items of property, plant and equipment which have not been recognised as liabilities and are payable are as follows:				
Within 1 year	**5,474**	3,009	**5,474**	3,009
(b) Future Lease Rental Commitments				
Operating lease payments under existing lease arrangements for building accommodation and equipment are payable over the following periods:				
Within 1 year	**2,558**	1,605	**2,558**	1,605
1 to 5 years	**6,396**	3,829	**6,396**	3,829
over 5 years	**536**	228	**536**	228
	9,490	5,662	**9,490**	5,662
The majority of these leases are non-cancellable leases with a five year term with rent payable in advance. No options exist for the renewal of any of these leases at the end of the lease terms.				
(c) Outstanding Loan Commitments				
Loans and credit facilities approved but not funded or drawn at the end of the financial year:				
Loans approved but not funded	**30,690**	25,963	**30,690**	25,963
Undrawn overdraft and line of credit facilities	**83,433**	85,717	**83,433**	85,717
Amounts available for redraw	**65,514**	39,729	**65,514**	39,729
	179,637	151,409	**179,637**	151,409

The withdrawal of loans approved but not funded is at the discretion of the Mutual Bank and is subject to available liquid funds. It is anticipated that all of these commitments will be paid within twelve months.

Amount undrawn under the overdraft, line of credit and available for redraw facilities are revocable at the Mutual Bank's discretion.

(d) Put and Call Option Deed for sale of land and Building

The Group signed a Put and Call Option Deed effective 18 May 2016 to sell the land and building at 454 St. Pauls Terrace, Fortitude Valley, Qld 4006. The sales contract is expected to be executed in September upon the exercise of the Put or Call Option. A heads of agreement has been entered to take up tenancy at RACQ offices in Edward Street, Brisbane.

33 Dividends

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Distributions paid by controlled entities to outside equity interests				
Declared fully franked ordinary dividends of $7.5 per share (2015: $10 per share) franked at the rate of 30% (2015: 30%)	**187**	250	**-**	-

For details of franking credits refer to Note 6(d).

34 Classes of Financial Assets and Financial Liabilities

The following is a summary of financial instruments by class.

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
(a) Financial Assets				
(i) Measured at amortised cost				
Cash and cash equivalents	**29,940**	14,657	**29,940**	14,657
Other receivables	**1,458**	2,327	**896**	1,754
Financial assets	**141,440**	178,497	**141,440**	178,497
Loans and advances	**1,226,893**	1,178,706	**1,226,893**	1,178,706
	1,399,731	1,374,187	**1,399,169**	1,373,614
(ii) Measured at fair value through other comprehensive income				
Equity investments	**3,000**	3,000	**3,075**	3,075
Total	**1,402,731**	1,377,187	**1,402,244**	1,376,689
(b) Financial Liabilities				
(i) Measured at amortised cost				
Deposits	**1,256,377**	1,231,764	**1,257,269**	1,232,534
Medium term notes	**20,029**	20,035	**20,029**	20,035
Other payables	**6,240**	4,641	**5,955**	4,368
Borrowings	**-**	4,538	**-**	4,538
	1,282,646	1,260,978	**1,283,253**	1,261,475
(ii) Measured at fair value				
Derivatives	**274**	283	**274**	283
Total	**1,282,920**	1,261,261	**1,283,527**	1,261,758

35 Fair Value Measurement of Financial Instruments

(a) Fair Value Hierarchy

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

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

Fair values for financial instruments traded in active markets are based on quoted market prices at reporting date. The quoted market price for financial assets is the current bid price. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. To the extent possible, assumptions used are based on observable market prices and rates at the end of the reporting date.

The financial instruments measured at fair value in the Statements of Financial Position at the end of the reporting date are interest rate swaps held for risk management, where the fair value of the liability is $274,000 (2015: $283,000) for both the economic entity and the Mutual Bank. The level of the fair value hierarchy into which the interest rate swaps fair value measurement is categorised is Level 2.

35 Fair Value Measurement of Financial Instruments (continued)

(b) Fair Values

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

Cash and Cash Equivalents and Other Receivables

The carrying values approximate their fair value as they are short term in nature or are receivable on demand.

Investments

(i) Assets measured at fair value through other comprehensive income: Fair values are determined based on quoted market prices. The fair value of financial assets that are not traded in a active market is determined using valuation technic. The Group uses its judgement to select a variety of methodology and make assumptions that are mainly based on market condition existing at the end of each reporting period.

(ii) Assets measured at amortised cost: The fair value of these assets was determined using discounted cash flow models based on the maturity of the deposits. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each deposit.

Loans and Advances

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

For variable rate loans the carrying value is a reasonable estimate of the fair value. The fair value for fixed rate loans was calculated by using discounted cash flow models based on the repricing date of the loans. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining fixed rate term of each loan.

Deposits

The fair value of non-interest bearing, at call and variable rate deposits is the carrying value as at 30 June.

Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other deposits. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each deposit.

Medium Term Notes

The fair value for medium term notes are accounted in the same way as deposits as per above.

Borrowings

Borrowings are comprised of an overdraft. The carrying value approximates its fair value as it is short term in nature.

Derivatives

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

(c) Financial instruments not measured at fair value - Fair value hierarchy

The following table sets out the fair value of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each instrument is categorised.

	Total fair values	Total carrying amount	Total fair values	Total carrying amount
	2016 $'000	**2016 $'000**	2015 $'000	2015 $'000
Economic Entity				
Financial Assets				
Financial assets at amortised cost	**144,380**	**141,440**	179,138	178,497
Loans and advances	**1,246,544**	**1,226,893**	1,189,379	1,178,706
Financial Liabilities				
Deposits	**1,258,000**	**1,256,377**	1,232,385	1,231,764
Medium term notes	**20,356**	**20,029**	20,245	20,035
The above items are measured at amortised cost using the effective interest rate method. These valuations would be classified as Level 2 in the fair value hierarchy.				
Mutual Bank				
Financial Assets				
Financial assets at amortised cost	**144,380**	**141,440**	179,138	178,497
Loans and advances	**1,246,544**	**1,226,893**	1,189,379	1,178,706
Financial Liabilities				
Deposits	**1,258,892**	**1,257,269**	1,233,155	1,232,534
Medium term notes	**20,356**	**20,029**	20,245	20,035

The above items are measured at amortised cost using the effective interest rate method. These valuations would be classified as Level 2 in the fair value hierarchy.

35 Fair Value Measurement of Financial Instruments (continued)

(d) Financial instruments measured at fair value - Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statements of Financial Position.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Economic Entity				
2016				
Financial assets at fair value through other comprehensive income	**-**	**3,000**	**-**	**3,000**
Derivative liabilities	**-**	**274**	**-**	**274**
2015				
Financial assets at fair value through other comprehensive income	-	3,000	-	3,000
Derivative liabilities	-	283	-	283
Mutual Bank				
2016				
Financial assets at fair value through other comprehensive income	**-**	**3,075**	**-**	**3,075**
Derivative liabilities	**-**	**274**	**-**	**274**
2015				
Financial assets at fair value through other comprehensive income	-	3,075	-	3,075
Derivative liabilities	-	283	-	283

The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

There have been no significant transfers into or out of each level during the year ended 30 June 2016 or the prior year.

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

Description	**Valuation approach and inputs used**
Derivatives at FVTPL Interest rate swaps	Present value of the estimated future cash flows based on observable yield curves.
Financial assets at fair value through other comprehensive income	The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

36 Interest Rate Risk

The Economic Entity's exposure to interest rate risk, which is the risk that a financial instrument's value or cash flows will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate on classes of financial assets and financial liabilities, is set out below. The Mutual Bank's exposure to interest rate risk is not materially different to the Economic Entity's.

Repricing Period at 30 June

	Floating interest rate		Fixed interest rate maturing in: 0 - 3 months		3 - 12 months		1 - 5 years		Over 5 years		Non-interest sensitive		Total		Weighted average effective interest rate*	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016**	2015
Financial Assets																
Cash and cash equivalents	**-**	-	**29,167**	13,838	**-**	-	**-**	-	**-**	-	**773**	819	**29,940**	14,657	**1.64%**	2.64%
Other receivables	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**1,458**	2,327	**1,458**	2,327	**N/A**	N/A
Financial assets at fair value through other comprehensive income	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**3,000**	3,000	**3,000**	3,000	**N/A**	N/A
Financial assets at amortised cost	**-**	-	**24,440**	45,202	**30,500**	45,795	**86,500**	87,500	**-**	-	**-**	-	**141,440**	178,497	**3.05%**	3.14%
Loans and advances	**880,582**	808,495	**38,531**	50,297	**155,596**	180,788	**151,907**	138,944	**277**	182	**-**	-	**1,226,893**	1,178,706	**4.43%**	5.26%
Total Financial Assets on Statements of Financial Position	**880,582**	808,495	**92,138**	109,337	**186,096**	226,583	**238,407**	226,444	**277**	182	**5,231**	6,146	**1,402,731**	1,377,187	**-**	-
Financial Liabilities																
Deposits	**822,168**	762,742	**193,503**	204,423	**221,362**	247,056	**18,661**	16,856	**-**	-	**683**	687	**1,256,377**	1,231,764	**1.80%**	2.08%
Medium term notes	**-**	-	**20,029**	20,035	**-**	-	**-**	-	**-**	-	**-**	-	**20,029**	20,035	**3.07%**	3.38%
Other payables	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**6,240**	4,641	**6,240**	4,641	**N/A**	N/A
Borrowings	**-**	4,538	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	4,538	**4.25%**	4.50%
Total Financial Liabilities on Statements of Financial Position	**822,168**	767,280	**213,532**	224,458	**221,362**	247,056	**18,661**	16,856	**-**	-	**6,923**	5,328	**1,282,646**	1,260,978	**-**	-
Unrecognised Items																
Interest rate swaps	**-**	-	**20,000**	27,000	**-**	(7,000)	**(20,000)**	(20,000)	**-**	-	**-**	-	**-**	-	**-0.73%**	-0.80%
Undrawn commitments	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**179,637**	151,409	**179,637**	151,409	**N/A**	N/A

* The weighted average effective interest rate has been calculated on the interest sensitive financial instruments in each category. N/A - Not Applicable.

37 Maturity Profile of Financial Liabilities

The table below shows the periods in which the financial liabilities mature. Contractual cash flows shown in the table are at undiscounted values (including future interest expected to be paid). Accordingly, these values may not agree to the carrying amount.

To manage the liquidity risk arising from financial liabilities, the economic entity holds liquid assets comprising cash and cash equivalents and investment grade securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the economic entity believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable the users to evaluate the nature and extent of liquidity risk. Please refer to Note 39 for further details on liquidity risk management.

The maturity profile of the economic entity's and the Mutual Bank's financial liabilities is shown in the following table:

	Carrying Amount		Within 1 month		1 - 3 months		3 - 12 months		1 - 5 years		Over 5 years		Gross Nominal Outflows	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Economic Entity														
Financial Liabilities														
Deposits	**1,256,377**	1,231,764	**838,115**	759,256	**196,215**	207,443	**226,146**	252,933	**20,118**	18,292	**-**	-	**1,280,594**	1,237,924
Medium term notes	**20,029**	20,035	**-**	-	**137**	170	**417**	513	**20,276**	21,009	**-**	-	**20,830**	21,692
Accrued Expenses	**3,120**	1,617	**3,120**	1,617	**-**	-	**-**	-	**-**	-	**-**	-	**3,120**	1,617
Borrowings	**-**	4,538	**-**	4,538	**-**	-	**-**	-	**-**	-	**-**	-	**-**	4,538
Derivatives	**274**	283	**12**	23	**23**	32	**103**	97	**47**	131	**-**	-	**185**	283
Total Financial Liabilities	**1,279,800**	1,258,237	**841,247**	765,434	**196,375**	207,645	**226,666**	253,543	**40,441**	39,432	**-**	-	**1,304,729**	1,266,054
Unrecognised Items														
Undrawn commitments	**179,637**	151,409	**179,637**	151,409	**-**	-	**-**	-	**-**	-	**-**	-	**179,637**	151,409
Mutual Bank														
Financial Liabilities														
Deposits	**1,257,269**	1,232,534	**839,007**	760,026	**196,215**	207,443	**226,146**	252,933	**20,118**	18,292	**-**	-	**1,281,486**	1,238,694
Medium term notes	**20,029**	20,035	**-**	-	**137**	170	**417**	513	**20,276**	21,009	**-**	-	**20,830**	21,692
Accrued Expenses	**3,008**	1,523	**3,008**	1,523	**-**	-	**-**	-	**-**	-	**-**	-	**3,008**	1,523
Borrowings	**-**	4,538	**-**	4,538	**-**	-	**-**	-	**-**	-	**-**	-	**-**	4,538
Derivatives	**274**	283	**12**	23	**23**	32	**103**	97	**47**	131	**-**	-	**185**	283
Total Financial Liabilities	**1,280,580**	1,258,913	**842,027**	766,110	**196,375**	207,645	**226,666**	253,543	**40,441**	39,432	**-**	-	**1,305,509**	1,266,730
Unrecognised Items														
Undrawn commitments *	**179,637**	151,409	**179,637**	151,409	**-**	-	**-**	-	**-**	-	**-**	-	**179,637**	151,409

* Refer to Note 32(c) for details.

38 Transfer of Financial Assets - Securitisation

	Economic Entity		Mutual Bank	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Carrying value of securitised loans	**312,312**	268,421	**312,312**	268,421
Less: Securitised loans de-recognised	**(3,613)**	(4,814)	**(3,613)**	(4,814)
Carrying value of securitised loans recognised as at the end of the reporting period	**308,699**	263,607	**308,699**	263,607

The Arrow Trust ('Arrow') has been established to support the on-going liquidity management framework at QTMB. QTMB has purchased the Residential Mortgage Backed Securities ('RMBS') issued by Arrow. The senior RMBS held by QTMB is eligible to be utilised as collateral in repurchase arrangements with the Reserve Bank of Australia ('RBA'). These arrangements enable QTMB to raise funds from the RBA utilising its loans and advances as the underlying security. The loans included in this facility have not been de-recognised as QTMB will continue to retain all risks and benefits of the mortgages.

The Mutual Bank has previously assigned and originated mortgage secured loans to Integrity Trust ('Integrity'). During the year the Mutual Bank did not assign or originate any loans (2015: $Nil) to Integrity. These loans qualify for de-recognition. The Mutual Bank receives fees for services provided to the securitisation program.

The securities issued by Integrity to raise the funding for the securitisation program do not represent deposits or liabilities of the Mutual Bank. The Mutual Bank does not guarantee the capital value or performance of the securities, or the assets of Integrity. The Mutual Bank does not guarantee the payment of interest or the repayment of principal due on the securities. The Mutual Bank is not obliged to support any losses incurred by investors in Integrity and does not intend to provide such support. The Mutual Bank has no right to repurchase any of the securitised loans.

39 Risk Management Policy and Objectives

Introduction

The Board of Directors ('the Board') has endorsed a policy of compliance and risk management aligned with the risk profile of the Mutual Bank. The Board and management take an enterprise-wide integrated approach to managing risk, ensuring that all staff actively participate in the management of risk on a day-to-day basis. Key risk management systems encompassed in the overall risk management framework include:

- Risk Management Policy;
- Risk Management Strategy;
- Board Risk Appetite and Tolerance Statement;
- Capital Management Strategy and Plan;
- Internal Capital Adequacy Assessment Process;
- Market Risk Management Strategy;
- Credit Risk Management System;
- Liquidity Management Strategy;
- Operational Risk Management System;
- Information Risk Management System;
- Business Continuity and Disaster Recovery Plans; and
- Fraud Policy.

The main elements of risk governance for the Mutual Bank are as follows:

The Board

The Board is the primary governing body and approves the level of risk to which the Mutual Bank is exposed and the framework for reporting and mitigating those risks. The Board delegates to management the responsibility of ensuring that risk policies, processes and systems commensurate with the Mutual Bank's risk appetite are implemented.

Board Risk Committee

The Board Risk Committee provides objective non executive oversight and review of the Mutual Bank's risk management framework within the context of its Committee charter and the risk management policy determined by the Board. This Committee has broad responsibility to ensure that the Mutual Bank operates within the risk appetite and tolerances agreed and set by the Board. The Committee is responsible for providing the Board guidance in establishing an appropriate risk appetite, and to escalate significant risks of particular concern. It is also responsible for the oversight and appointment of the Chief Risk Officer, and has responsibility for the review and oversight of various systems, policies and processes for the management of risk.

39 Risk Management Policy and Objectives (continued)

Introduction (continued)

Board Audit Committee

The Board Audit Committee's key role is objective non executive review of the effectiveness of the controls and frameworks that are in place to mitigate risks and that support accurate financial reporting. This Committee oversees all aspects of internal control including compliance activities, the audit programme, the appropriateness of significant accounting policies and the adequacy of financial reporting. It also receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Board for their consideration.

Executive Committee

The Executive Committee, chaired by the Chief Executive Officer, is responsible at a management level for implementing the Board approved risk management strategy and developing risk management systems, policies, processes, procedures and controls for identifying and treating risks throughout the Mutual Bank. This Committee also develops, reviews and communicates strategies and policies within the framework of the strategic plan and Board approved delegations. The Executive Committee meets monthly or more frequently if required. Where appropriate, the Chief Executive Officer and the Executive Committee establish working committees to draft policy and procedures, set limits and manage, measure and report on risk.

Asset and Liability Committee

The Asset and Liability Committee ('ALCO') has responsibility for managing liquidity, interest rate risk and the net interest margin by determining pricing for all of the Mutual Bank's products. It ensures that liquidity and market risk are appropriately managed in accordance with relevant Board approved management strategy documents. The ALCO is also responsible for the management of credit risk associated with liquidity investments and derivative contracts. The Committee meets monthly or more frequently, as required.

Credit Committee

The primary risk responsibilities of this Committee, is to review and implement the Credit Risk Management Strategy for the Bank and provide recommendations to the Board where necessary. The Committee also make decisions on individual credit applications above the delegated lending authority for individuals, and it reviews and makes changes to credit policy, as appropriate. This Committee also ensures that there is appropriate reporting to the Board on all material matters arising from credit risk review and portfolio management processes.

Operational Risk Management Committee

The Operational Risk Management Committee ('ORMC') meets on a monthly basis, with the primary purpose being to oversee the effective and integrated implementation of operational risk management practices within the Mutual Bank. The ORMC agrees and/or endorses risk mitigation strategies and monitors operational risk levels on an ongoing basis, through access to various information and reports contained within the Bank's web-based Operational Risk Management System.

Internal Audit

Internal Audit has responsibility for implementing the controls testing and assessment of controls as required by the Board Audit Committee. Further to this, Internal Audit provides an independent appraisal of the Mutual Bank's internal controls by reviewing various functions and departments to ensure that activities are performed as documented.

The Mutual Bank's policies and strategies to minimise the risks arising from financial instruments are described below.

Market Risk Policy

The Mutual Bank is exposed to interest rate risk arising from changes in market interest rates. Interest rate risk is the variability of the fair value or future cash flows arising from financial instruments due to changes in interest rates. The Mutual Bank is not exposed to currency risk or other price risks. The Mutual Bank does not trade in the financial instruments it holds on its books.

The objective of the Mutual Bank's Market Risk Management Strategy is to manage market rate risk by identifying, measuring, limiting and reporting on the risk.

The Mutual Bank's approach to managing interest rate risk is consistent with the Australia and New Zealand Risk Management Standard, and as such includes the following steps:

Identification – review of the type and tenor of interest bearing products issued and used by the Mutual Bank for basic interest rate risk characteristics.

Measurement – application of appropriate measurement techniques to estimate the level of interest rate risk within the portfolio. The Mutual Bank uses four key measures for interest rate risk assessment. These are principal gap reporting, sensitivity analysis, value at risk ('VaR') and accrued simulation.

Limiting – setting of appropriate limits to contain the maximum level of exposure the Mutual Bank can retain.

Reporting and Managing – production of meaningful interest rate risk reports for management to discuss and act upon, including the utilisation of derivatives to manage risk.

39 Risk Management Policy and Objectives (continued)

Market Risk Policy (continued)
Independent risk management consultants, have been contracted to assist with the provision of this information on a monthly basis.

The Board monitors these risks through management reports.

Based on VaR calculations as at 30 June 2016, the net VaR position as a percentage of capital for the Mutual Bank, after allowing for hedges and prepayments was 2.42% (2015: 2.55%). The Mutual Bank has a VaR limit of 7.00% (2015: 7.00%) of capital.

Based on calculations as at 30 June 2016, the net profit impact for a 0.01% (2015: 0.01%) downwards movement in interest rates was a loss of $17,699 (2015: loss of $15,981).

There has been no change to the Economic Entity's and the Mutual Bank's exposure to market risk or the way the economic entity and the Mutual Bank manages and measures interest rate risk in the reporting period.

Details of the Economic Entity's and the Mutual Bank's interest rate risk profile are set out in Note 36.

Hedging Policy
The Mutual Bank uses derivative financial instruments (interest rate swaps) to reduce the exposure to market risks arising from changes in interest rates. The Mutual Bank does not enter into derivative contracts for the purposes of trading. Hedging decisions are made based on the Mutual Bank's interest rate risk position. Hedging for the purpose of this policy means a transaction which reduces the calculated interest rate risk on the overall portfolio of interest bearing assets and liabilities using one or more of the interest rate risk measures of value at risk, sensitivity or accrued simulation.

Credit Risk
Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Economic Entity as and when they fall due, which may result in financial losses. Credit risk arises principally from the Economic Entity's loan book, investment assets and derivative contracts.

Maximum Credit Risk Exposure
The Economic Entity's maximum exposures to credit risk at the end of the reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statements of Financial Position, except loans and advances, where the maximum credit risk is $1,257,792,000 (2015: $1,204,781,000). In adopting these values as the maximum exposures, this does not take into account the value of any collateral or other security held in the event other parties fail to perform their obligations under the financial instruments in question. Further, these values do not take into account the value of financial liabilities that carry a legally recognised right of set-off against certain financial assets. In determining the concentration of credit risk with Cuscal Limited, relevant financial liabilities have been deducted from the carrying amount of the financial assets (refer Concentrations of credit risk disclosure below).

Credit Risk - Loans and Advances
The method of managing credit risk on loans is by way of strict adherence with credit assessment policies before the loans are approved, close monitoring of any defaults in the repayment of loans thereafter and active monitoring of the quality of the loan portfolio on an ongoing basis. The Credit Risk Management System has been endorsed by the Board to ensure that loans are only made to members that are assessed as credit-worthy (capable of meeting loan repayments) and that appropriate security is taken against loans made.

The Mutual Bank has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers;
- Reassessment and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies by a dedicated Credit Risk Review unit.

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

(i) Past due and impaired loans
A loan or overdraft is past due when the counterparty has failed to make a payment when contractually due. Past due does not mean that a counterparty will never pay but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Weekly reports monitor loan repayments to detect delays in repayments and recovery action is undertaken where appropriate.

A loan or overdraft will be classified as impaired regardless of whether it is past due where there is doubt as to whether the full amount due, including interest and other payments, will be repaid in a timely manner. In such situations, an appropriate provision is made against the exposure.

Loans and similar facilities that are past due 90 days or more and which are not well secured will be treated, for the total amounts outstanding, as impaired. Overdrafts and other revolving facilities that have remained continuously outside approved limits for 14 or more consecutive days, and which are not well secured, will also be treated, for the total amounts outstanding, as impaired.

39 Risk Management Policy and Objectives (continued)

Credit Risk (continued)
A provision is made for past due loans and overdrafts in accordance with Prudential Standards issued by APRA based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears and the security held. Additional provision is made on other loans, impaired or otherwise, where it is warranted.

Details of past due and impaired balances and provisions for impairment of loans and advances to members are set out in Note 15. The provisions for impaired and past due exposures relate to loans and advances to members. Refer Note 2(i) for details of the accounting policy for bad debt write-offs and renegotiated loans.

(ii) Collateral securing loans
The major portion of the loan book is secured against residential property in Australia. Therefore, the Economic Entity is exposed to the potential risk of an increase in the loan-to-valuation ratio ('LVR'), and thus a reduction in security cover should the property market experience a decline in values.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security. Note 15(h) outlines the nature and extent of the security held against the loans and advances as at the end of the reporting period.

(iii) Concentration risk – individuals
Concentration risk is a measurement of the Economic Entity's exposure to an individual counterparty (or group of related counterparties). The Economic Entity minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Concentration risk is also managed in accordance with the Prudential Standards issued by APRA. A large exposure is considered to exist if the exposure to an individual counterparty (or group of related counterparties) exceeds the prudential limit of 10% of the Economic Entity's regulatory capital. No additional capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable.

The Economic Entity holds no significant concentrations of exposures to members.

(iv) Concentration risk – industry
The Mutual Bank has a concentration of loans to members employed in the teaching profession and the education industry generally. As a risk, this concentration is considered acceptable on the basis that the Mutual Bank was originally formed to service these members, and these members continue to comprise a significant portion of the membership base. Loans and advances to members employed in the education industry amounted to $787,682,000 or 64% of total loans and advances (2015: $752,629,000 or 64%).

(v) Concentration risk – geographic
All loan and advances are within Australia with the major exposure being to home loans in Queensland. These exposures are segmented according to major population centres and regions in Queensland.

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

(i) Concentrations of credit risk
The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent credit rating of the investment counterparty and the limits to concentrations with any one counterparty. Risk of losses is further reduced by limit settings for credit risk rating bands.

The Mutual Bank's policy is to maintain liquidity investments with Cuscal Limited ('Cuscal') of at least 120% of all committed facility limits with them. Cuscal is a company set up to support its mutual ADI members and which has a Standard & Poor's long term rating of A+ and a short term rating of A-1 (2015: long term rating of A+ and short term rating of A-1).

(ii) External credit assessment for institutional investments
The Economic Entity uses the ratings of reputable ratings agencies to assess the credit quality of all liquid investment exposures using the credit quality assessment scale in APRA Prudential Standard 112. All liquid investments are required to be with financial institutions with a minimum Standard & Poor's rating of BBB- long term and A-3 short term (or equivalent) or in securities eligible for repurchase by the Reserve Bank of Australia.

The carrying values of liquid investments associated with each credit quality category for the Economic Entity are listed below. There are no provisions (2015: $Nil) held against these exposures.

39 Risk Management Policy and Objectives (continued)

Credit Risk (continued)

	Economic Entity 2016 $'000	Economic Entity 2015 $'000
ADIs – rated AA- long term and above	**84,470**	88,420
ADIs – rated A- long term and above, but below AA- long term	**61,450**	66,990
ADIs – rated BBB- long term and above, but below A- long term	**24,750**	36,610
ADIs – rated BB+ long term and above, but below BBB- long term	**-**	-
Total	**170,670**	192,020

Credit Risk – Equity Investments

All investments in equity instruments are solely for the benefit of service to the Mutual Bank. The Mutual Bank invests in entities set up for the provision of services such as facility management of the computer system, software development and institutional banking services, where specialisation demands quality staff and the needs of a number of mutual ADIs are best served by one entity providing these services. The Mutual Bank's investment policy requires Board approval for all equity investments. Further details of the investments are set out in Note 11.

Credit Risk – Derivative Contracts

The Mutual Bank uses interest rate swaps to reduce the exposure to market risk arising from changes in interest rates. The Mutual Bank's derivatives policy places limits on the credit exposure to individual interest rate swap counterparties. Only ADI's with a Standard & Poor's long term rating of A- or above are considered eligible counterparties. All facility arrangements with counterparties must be approved by the Mutual Bank's ALCO. For further details of interest rate swaps used by the Mutual Bank refer Note 24.

Liquidity Risk

Liquidity risk is the risk that the Economic Entity may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. deposit withdrawal demands or borrowing repayments. It is the policy of the Board that adequate cash reserves and committed credit facilities are maintained so as to meet cash obligations on demand and as they fall due.

The Economic Entity manages liquidity risk by:

- Forecasting of cash flows on a daily and monthly basis including examining the impacts of various scenarios;
- Continuously monitoring actual and daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Limit setting and management of funding diversity;
- Maintaining adequate liquidity reserves, liquidity support facilities, reserve borrowing facilities and a Reserve Bank of Australia (RBA) repurchase facility arrangement; and
- Monitoring the prudential liquidity ratio daily.

During the financial year the Mutual Bank's special purpose vehicle, the Arrow Funding Trust, issued Residential Mortgage Backed Securities ('RMBS') which are eligible for repurchase by the RBA. This facility arrangement is for the purposes of contingent liquidity management and serves to strengthen the Mutual Bank's liquidity risk management.

Under the APRA Prudential Standards, the Mutual Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within two business days. The Mutual Bank's policy is to maintain an agreed buffer above this level and includes a number of measures to ensure that appropriate actions are taken where it is anticipated that liquidity levels will fall below various levels prescribed in the policy. These measures include, but are not limited to, accessing any unutilised borrowing facilities. Note 30 sets out the borrowing facility as at the end of the reporting date.

The maturity profile of the financial liabilities based on the contractual repayment terms are set out in Note 37.

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

	2016	2015
To total adjusted liabilities:		
• As at 30 June	**11.82%**	12.82%
• Average for the year	**13.42%**	14.04%
• Minimum during the year	**11.35%**	10.93%
To total deposits:		
• As at 30 June	**12.38%**	13.40%

39 Risk Management Policy and Objectives (continued)

Operational Risk

Operational risk is the risk of a loss to the Mutual Bank resulting from inadequate or failed processes, people and systems, or from external events.

The Mutual Bank's objective is to manage operational risk and balance the avoidance of financial losses through the implementation of effective controls, whilst avoiding procedures which are unnecessarily restrictive. In order to determine the most appropriate and effective way to manage the various operational risks that exist, the Mutual Bank adopts an approach that requires operational risks to be identified, analysed, evaluated, and where necessary, treated. This process is then supplemented by ongoing monitoring and review of operational risks identified and the effectiveness of the controls in place to address those risks.

Operational risk is managed on a day-to-day basis through the implementation of policies, procedures and systems with the extent of what measures are appropriate to manage an identified risk being derived from consideration of the likelihood of the risk occurring, and what the consequences could be, should the particular risk event in question occur.

Some of the measures taken by the Mutual Bank to address operational risk include, but are not limited to, the following:

- The publication and use of a Board approved Operational Risk Management System document. This document identifies the key operational risk types faced by the Mutual Bank, documents some of the key measures taken to address the material risks identified, and identifies responsibility for managing the risks.
- The publication and use of numerous other risk management systems and corporate governance policies, all of which are intrinsically linked to managing key operational risks. These documents include the Business Continuity Plan, the Disaster Recovery Plan, the Information Risk Management System, the Fraud Policy, the Compliance Plan, the Whistleblower Policy, the Outsourcing Policy and the Anti-Money Laundering and Counter-Terrorism Financing Program and Plan. All of these documents include information on, and strategies for, managing the relevant operational risks.
- Utilisation of a holistic, integrated web-based Operational Risk Management System which serves as a central repository for recording the operational risks identified by departments, assessing the effectiveness of the controls in place to manage those risks, delivering reporting to highlight prevalent risk levels premised upon the recording of Key Risk Indicator information and responses to Control Attestation questions, as well as the documentation of Loss Events.
- Ensuring segregation of duties between employee duties and functions, including approval and processing duties.
- Documentation of policies and procedures, employee job descriptions and responsibilities to reduce the incidence of errors and inappropriate behaviour.
- Deploying physical and systems access restrictions.
- Ensuring effective dispute resolution procedures exist to respond to member complaints; and
- Maintaining adequate insurance arrangements to reduce the impact of any losses.

40 Capital Management

APRA sets and monitors capital requirements for the Economic Entity under Prudential Standard 110 - Capital Adequacy. Under the Standard, the Economic Entity must maintain minimum levels of Common Equity Tier 1 capital, Tier 1 capital and total capital. Common Equity Tier 1 capital comprises the highest quality components of capital that fully satisfy the following characteristics:

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

	2016 $'000	2015 $'000
Capital in the economic entity is made up as follows:		
Common Equity Tier 1 Capital		
General reserves	**-**	(198)
Retained earnings	**130,789**	126,306
Property revaluation reserve	**13,824**	-
Non-controlling interests	**274**	237
Common Equity Tier 1 Capital	**144,887**	126,345
Less: prescribed deductions	**(5,230)**	(8,423)
Net Common Equity Tier 1 Capital	**139,657**	117,922
Tier 2 Capital		
General reserve for credit losses	**2,058**	2,028
Less: prescribed deductions	**-**	-
Net Tier 2 Capital	**2,058**	2,028
Total Capital	**141,715**	119,950

40 Capital Management (continued)

The Economic Entity has set an internal minimum capital adequacy level of 12% (2015: 12%) as compared to the risk weighted assets at any given time.

The Economic Entity has complied with all externally and internally imposed capital requirements throughout the period.

The capital adequacy ratio as at the end of each reporting period, for the past 5 years was as follows:

2016	2015	2014	2013	2012
21.0%	18.6%	18.5%	18.1%	17.4%

The level of capital adequacy ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

The Economic Entity's objective is to maintain sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally and internally imposed capital ratios.

To manage, monitor and report regulatory and economic capital, the Economic Entity has a Board approved Capital Management Strategy which sets out objectives and policies and an annual Capital Management Plan which includes five year capital forecasts prepared under various scenarios.

Pillar 2 of the Regulatory Prudential Framework
In accordance with APS 110 Capital Adequacy, the Economic Entity has an Internal Capital Adequacy Assessment Process ('ICAAP') policy which sets out the objectives, processes, responsibilities and reporting requirements for the ICAAP and an annual ICAAP document which sets out the results of the annual assessment process.

From the ICAAP, the Economic Entity has determined that a minimum capital adequacy ratio of 12% (2015: 12%) is appropriate and commensurate with the risks faced including those inherent in the Mutual Bank's strategic plan.

41 Events Subsequent to the End of the Reporting Date

Proposed merger with RACQ
The proposed merger with RACQ announced in April 2016 is still subject to two separate votes by the members of QTMB and subsequent Federal Court approval. The first vote is scheduled to occur in August 2016 with the second scheduled for October 2016.

Sale of land and building
The Group signed a Put and Call Option Deed effective 18 May 2016 to sell its head office premises at 454 St Pauls Terrace. The sales contract is expected to be executed in September upon the exercise of the Put or Call Option. A heads of agreement has been entered to take up tenancy at RACQ offices in Edward Street, Brisbane.

There are no other matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, or state of affairs of the Mutual Bank or the Economic Entity in subsequent financial years.

42 Economic Dependency

The Mutual Bank has an economic dependency on the following suppliers of services:

(a) Cuscal Limited

This entity provides transaction switching services used to link Redicards and Visa Debit cards operated through ATM and EFTPOS devices to the Mutual Bank's systems.

This entity also supplies the Mutual Bank rights to Visa Debit Card in Australia and provides services in the form of settlement with Bankers for ATM and Visa Debit Card transactions, personal and corporate cheques, and the production of Visa Debit and Redicards for use by members together with institutional banking services to the Mutual Bank. The Mutual Bank has liquidity investments with this entity. The Mutual Bank also has its borrowing facility with this entity (refer to Note 30).

(b) TransAction Solutions Pty Ltd

This company is the facility manager of the Mutual Bank's computer system. It also supplies the computer hardware system used by the Mutual Bank for its core banking software. The system is shared with other mutual ADIs, reducing costs in this area.

43 Company Details

The registered office and the principal place of business of the company is:

QT Mutual Bank Limited
454 St Pauls Terrace
Fortitude Valley, Qld 4006

Directors' Declaration

for the year ended 30 June 2016

In accordance with a resolution of the Directors of QT Mutual Bank Limited, we declare that:

1 The financial statements, comprising the Statements of Profit or Loss and Other Comprehensive Income, Statements of Financial Position, Statements of Changes in Equity, Statements of Cash Flows and accompanying notes, are in accordance with the *Corporations Act 2001*, and:

(a) give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the Mutual Bank and the Group; and

(b) comply with Australian Accounting Standards, International Financial Reporting Standards and the *Corporations Regulations 2001*.

2 In the Directors' opinion, there are reasonable grounds to believe that the Mutual Bank and its subsidiaries will be able to pay its debts as and when they become due and payable.

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

P.G. Whitelaw
Chair

J.T. Fisher-Stamp
Deputy Chair

Brisbane: 25 August 2016

Independent Auditor's Report

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To the members of QT Mutual Bank Limited

Report on the Financial Report

We have audited the accompanying financial report of QT Mutual Bank Limited, which comprises the statements of financial position as at 30 June 2016, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

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

Opinion
In our opinion:

a) the financial report of QT Mutual Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2016 and of their performance for the year ended on that date; and

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

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

BDO Audit Pty Ltd

BDO
TJ Kendall

TJ Kendall
Director

Brisbane, 25 August 2016

QT Mutual Bank