

B&E Ltd

Annual Report 2017/2018



DIRECTORS' REPORT

For the year ended 30 June 2018

Your directors submit their report for the year ended 30 June 2018.

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

Stephen Benbow BROWN MBA BBus FCA FAICD (Chairman)

Mr Brown is CEO of Launceston City Mission. Prior to this he was Executive Director with a national training organisation and formerly worked in public accounting, consulting and as CEO of a WA-based mutual health insurance organisation. He is also the current Chairman of Health Recruitment Plus Tasmania.

Mr Brown was appointed B&E Ltd Chairman in October 2014 and has been a Director since January 2009. He is also Chairman of the Board Corporate Governance Committee and the Board Remuneration Committee.

Lynley (Lyn) Thomas COX BEc FCA FAICD

Mr Cox worked in public accounting from 1970 and was a partner of Deloitte Touché Tohmatsu and antecedent firms from 1976 to 2007 including over 10 years as State Managing Partner. He was a Director and State President of the Australian Institute of Company Directors, Chairman and a Director of the Tasmanian Development Board and a Member of the Governing Council of Tasmanian Health Organisation – South.

Mr Cox has been a Director since June 2007 and past Chairman 2011-2014. He is also Chairman of the Board Audit Committee and is a member of the Board Risk Committee.

Keryn Louise NYLANDER BA FAICD

Ms Nylander, a former journalist and television news director, is an experienced public relations, media, marketing, brand and communications specialist now heading up her own business, Nylander Consulting. She has served on a number of boards over the past decade including Wine Tasmania and Tasmanian Development Board and recently finished a 9 year term on the Fahan School Board, the past 3 as Chairman.

Ms Nylander has been a Director since 2004 and served as Chairman 2009-2011. She is a member of the Board Corporate Governance Committee and Board Remuneration Committee.

Mark Anthony NUGENT BCom CPA GAICD

Mr Nugent is Chief Financial Officer of Fairbrother Pty Ltd. He is a Director of Fairbrother Pty Ltd, a Director of Degree C Pty Ltd and a Board Member of OzHelp Tasmania. He has more than 25 years' experience in management, accounting and administration in both the private and public sectors.

Mr Nugent was appointed as a Director in February 2012 and is Chairman of the Board Risk Committee and a member of the Board Audit Committee.

Scott NEWTON FAPI, B.Bus (L.Ec) GAICD

Mr Newton is currently CEO of Knight Frank Tasmania and IPST Pty Ltd. He has worked in the property industry for over 27 years and served as the National Director of Opteon Property Group and State President of the Australian Property Institute.

Mr Newton was appointed as a Director on 26 October 2014 and is a member of the Board Corporate Governance Committee and Board Remuneration Committee.

Robert KING, BSc MBA MAICD

Until April 2017 Mr King was the Chief Executive Officer of Intech Bank and a Group Executive of Bank Australia, one of Australia's leading mutuals. Over a thirty year career he has worked in senior leadership roles for a range of banking institutions including ME Bank, Citibank, Rothschild and Newcastle Permanent Building Society.

Mr King was appointed to the Board in November 2017 and is a member of the Board Audit and Board Risk Committees.

Colin (Mac) McDougall RUSSELL AM

Mr Russell is a former CEO and founder of Russell-Smith Electrical. He has also been involved as an owner and a director of other Tasmanian entities, including Degree C Pty Ltd and Lemonthyme Lodge. He has served as State and National President of the National Electrical and Communications Association. His recent roles include being Chairman of Connect Superannuation and the Australian Technical College Northern Tasmania. Current involvements include being a Director of Degree C Pty Ltd and Chairman of a private investment and property company.

Mr Russell was appointed as a Director in April 2008 and retired as a Director on 31 October 2017.

DIRECTORS' REPORT (continued)**For the year ended 30 June 2018****COMPANY SECRETARY****Gerald Leigh WHITE BBus(Acc), FCA, MBA, GAICD**

Mr White joined the Company on 6 May 2013 as Chief Financial Officer (CFO) and was appointed as Company Secretary effective 16 May 2013.

	BOARD OF DIRECTORS MEETINGS		MEETINGS OF COMMITTEES							
			Risk		Audit		Remuneration		Corporate Governance	
Meetings held:										
Attended by	Eligible to attend	No. attended	Eligible to attend	No. attended	Eligible to attend	No. attended	Eligible to attend	No. attended	Eligible to attend	No. attended
S B Brown	11	11	-	-	-	-	4	4	6	6
L T Cox	11	10	4	4	4	4	-	-	-	-
K L Nylander	11	10	-	-	-	-	4	4	6	6
C M Russell*	4	3	-	-	-	-	2	2	2	2
M A Nugent	11	11	4	4	4	4	-	-	-	-
S Newton	11	11	2	2	2	2	2	2	3	3
R King**	7	6	2	2	2	2	0	0	-	-

* Retired as a director 31 October 2017

**Comenced as a Director 28 November 2017

Principal Activities

The principal activities of the Company during the course of the financial year remained unchanged and were the provision of financial services to clients through a range of saving, investment, loan and insurance products.

Operating Results

Profit for the financial year, after providing for income tax, was \$1,587,029 (2017: \$3,451,193).

Significant Changes in Affairs

During the financial year the Company transitioned from a Building Society to a Mutual Bank and rebranded to the trading name of *Bank of us*.

DIRECTORS' REPORT (continued)

For the year ended 30 June 2018

Events Subsequent to Balance Date

As part of the transition to a Customer Owned Bank, the Company is required by the Australian Prudential Regulation Authority (APRA) to develop an internal securitisation program for the purposes of contingent liquidity. To fulfil this requirement a Special Purpose Entity (SPE) must be created through which the securitisation exposures will be held.

The Company has commenced the first stage in the process to formally establish the SPE by executing the 'Australian Mutuals Group Funding Platform Deed of Accession' (Accession Deed) on 25th July 2018.

Under the Accession Deed Perpetual Corporate Trust Limited (ABN 99 000 341 533) were appointed "Trustee"; P.T. Limited (ABN 67 004 454 666) were appointed "Security Trustee"; B & E Limited (ABN 32 087 652 088) were appointed "New Manager", "New Trust Administrator", "New Servicer", "New Seller" and "New Subscriber".

With the Accession Deed executed, the Tamar Trust was declared on 25th July 2018 through the Trustee's execution of the 'Notice of Creation of Trust - Tamar Trust', and the 'Notice of Creation of Security Trust - Tamar Trust Repo Series No. 1 Security Trust'

It is anticipated the first Notes to be issued by the 'Tamar Trust Repo Series No.1' will be on or around 26th September 2018 at which time a securitisation exposure will commence.

Upon issuing the Notes, application will be made to register the relevant securities as an Eligible Security under the Reserve Bank of Australia (RBA) open market operations.

The Tamar Trust currently has no assets or liabilities.

Review of Operations

The year under review recorded strong results in all areas of business operations with another year of strong improvement in loans approved with \$215 million (2017: \$169 million) while the total loan portfolio grew by \$73.21 million to \$703.57 million.

Profit before income tax for the year was \$2,326,154 (2017: \$4,855,500). The profit result for the year was impacted by margin squeeze as a result of increased competition and the costs associated with the transition to mutual bank including rebranding. Profit in the prior year included \$1,656,128 in property sales and revaluations.

Total assets increased 10.11% to \$840.8 million (2017: increased 4.91% to \$763.6 million).

Likely Developments

There are no known likely developments at the date of this report that will impact the operations of the Company in a material way.

Environmental Issues

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

Public Prudential Disclosures

In accordance with APS 330 Public Disclosure requirements, the Company is to disclose certain information in respect of:

- details on the composition and features of capital and risk weighted assets; and
- both qualitative and quantitative disclosures for senior managers and material risk takers.

These disclosures can be viewed on the Company's website: <http://www.b-e.com.au/reports> (under prudential information section).

Indemnification and Insurance of Officers and Auditors

The Directors and Officers of the Company have been indemnified against personal losses arising from their respective positions within the Company.

The Company has the benefit of a Directors' and Officers' Insurance policy. In accordance with common commercial practice the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

No liability has arisen under these indemnities as at the date of this report.

The Company has not provided any insurance for the auditor.

Auditor's Independence

An Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 has been received by the Directors, and a copy of the declaration is set out on page 52.

Signed in accordance with a resolution of Directors



Stephen Brown

Chairman

Dated at Launceston 28 August 2018

DIRECTORS' DECLARATION

In the opinion of the directors of B&E Ltd:

- a. the financial statements and notes of B&E Ltd are in accordance with the *Corporations Act 2001*, including
 - i. giving a true and fair view of its financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
 - ii. complying with Australia Accounting Standards and the *Corporation Regulations 2001*; and
- b. there are reasonable grounds to believe that B&E Limited will be able to pay its debts as and when they become due and payable.
- c. the financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Director

A handwritten signature in black ink, appearing to be 'S. Brown', written over a horizontal line.

Dated at Launceston 28 August 2018

Financial statements

For the year ended 30 June 2018

CONTENTS

	Page
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Auditor Independence Declaration	52
Independent Audit Report	53-54

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Interest revenue	3	31,192,106	29,275,162
Interest expense	3	(13,436,973)	(13,568,095)
Net interest income		17,755,133	15,707,067
Non-interest income	4	2,400,653	4,197,415
		2,400,653	4,197,415
Non-interest expenses			
Fees & commission expense		(1,868,467)	(1,717,840)
Impairment expense	5	(61,456)	(50,801)
Marketing costs		(415,867)	(712,969)
Employee costs		(9,315,958)	(8,075,768)
Communications and information technology expense		(1,231,505)	(1,007,017)
Occupancy costs		(1,816,112)	(1,606,066)
Administrative costs		(3,120,267)	(1,878,521)
Profit before income tax		2,326,154	4,855,500
Income tax expense	6	(739,125)	(1,404,307)
Profit after income tax		1,587,029	3,451,193
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on revaluation of buildings		-	1,656,128
Income tax attributable to revaluation		-	(496,838)
Total other comprehensive income, net of income tax		-	1,159,290
TOTAL COMPREHENSIVE INCOME		1,587,029	4,610,483

The statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

Statement of Financial Position
As At 30 June 2018
ASSETS

	Notes	2018 \$	2017 \$
Cash	7	54,900,653	45,173,680
Trade receivables	8	531,536	420,478
Placements with other financial institutions	9	70,823,277	77,264,672
Customer loans and advances	10	703,569,556	630,360,393
Investments	11	96,146	96,146
Prepayments		467,234	243,429
Property, plant & equipment	12	6,440,506	6,356,852
Investment property	13	2,945,001	2,945,001
Deferred tax	20(b)	559,938	402,650
Intangible assets	14	450,594	340,138
TOTAL ASSETS		840,784,441	763,603,439

LIABILITIES

Deposits from other financial institutions	15	117,611,262	69,184,792
Deposits from customers	16	645,816,019	615,299,147
Trade and other payables	17	5,769,119	6,184,986
Employee benefits	18	1,430,232	1,050,903
Current tax liabilities	20(a)	8,531	244,512
Deferred tax liabilities	20(a)	339,146	415,996
Long term borrowings	19	-	3,000,000
TOTAL LIABILITIES		770,974,309	695,380,336

NET ASSETS

69,810,132	68,223,103
-------------------	-------------------

EQUITY

Reserves	69,810,132	68,223,103
TOTAL EQUITY	69,810,132	68,223,103

The statement of financial position is to be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the Year ended 30th June 2018

	Retained earnings \$	Asset revaluation reserve \$	General reserve \$	Credit asset impairment reserve \$	Total \$
Balance at 1 July 2017	-	2,545,350	64,344,617	1,333,136	68,223,103
Net profit for the period	1,587,029	-	-	-	1,587,029
Other comprehensive income	-	-	-	-	-
Transfers to and from reserves					
General reserve	(1,587,029)	-	1,587,029	-	-
Asset revaluation reserve	-	-	-	-	-
Credit asset impairment reserve	-	-	-	-	-
Equity as at 30 June 2018	-	2,545,350	65,931,646	1,333,136	69,810,132

For the Year ended 30th June 2017

	Retained earnings \$	Asset revaluation reserve \$	General reserve \$	Credit asset impairment reserve \$	Total \$
Balance at 1 July 2016	-	2,875,515	59,601,524	1,135,581	63,612,620
Net profit for the period	3,451,193	-	-	-	3,451,193
Other comprehensive income	-	1,159,290	-	-	1,159,290
Transfers to and from reserves					
General reserve	(3,451,193)	-	3,451,193	-	-
Asset revaluation reserve	-	(1,489,455)	1,489,455	-	-
Credit asset impairment reserve	-	-	(197,555)	197,555	-
Equity as at 30 June 2017	-	2,545,350	64,344,617	1,333,136	68,223,103

The statement of changes in members' equity is to be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the Year Ended 30 June 2018

Cash flows from operating activities:

Interest received	31,233,292	29,372,782
Interest paid	(13,753,092)	(12,851,842)
Payments to suppliers	(8,014,997)	(5,916,520)
Other receipts	2,217,453	2,969,673
Payments to employees	(9,129,120)	(8,401,008)
Income taxes paid	(1,209,244)	(1,324,948)
22(a)	1,344,292	3,848,137

(Increase)/decrease in operating assets:

Net increase in loans and advances	(73,270,619)	(47,610,026)
Net movement in wholesale deposits	48,426,470	(10,500,000)
Net movement in customer deposits	30,697,195	40,084,563

Net cash provided by/(used in) operating activities	22(a)	7,197,338	(14,177,326)
--	-------	-----------	--------------

Cash flows from investing activities:

Net proceeds from placements with other financial institutions	6,441,395	879,403
Sale of investment securities	-	10,000
Proceeds from sale of property, plant and equipment	90,605	4,434,524
Acquisition of property, plant and equipment	(1,002,365)	(744,982)
Net cash provided by investing activities	5,529,635	4,578,945

Cash flows from financing activities:

Repayment of subordinated debt	(3,000,000)	-
Net cash provided by financing activities	(3,000,000)	-

Net increase/(decrease) in cash		9,726,973	(9,598,381)
Cash at beginning of year		45,173,680	54,772,061
Cash at end of year	7	54,900,653	45,173,680

The statement of cash flows is to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the Year Ended 30 June 2018

1 Statement of significant accounting policies

Statement of compliance

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

B&E Ltd (the Company) is a company limited by shares and guarantee, incorporated and domiciled in Australia. The Company is a for profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

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

The financial statements were authorised for issue by the directors on 28 August 2018.

(a) Basis of preparation

The financial statements, except for the cash flows, have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which a fair value basis of accounting has been applied.

(b) Accounting judgements & estimates

The preparation of financial statements in accordance with Accounting Standards requires the exercise of judgement in the selection and application of accounting policies, as well as certain estimates and assumptions that affect amounts reported in the financial statements.

Areas of the financial statements involving a higher degree of judgement or complexity, or areas where reliance on estimates or assumptions are significant include:

- impairment losses on loans and advances (refer to note 10);
- ability to realise deferred tax asset balances (refer to note 20); and
- land and building and investment property valuation assumptions (refer to note 12, 13 and 28).
- changes in accounting policies (refer to note 2).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial statements are reasonable. Actual results in the future may differ from those reported.

(c) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Notes to the Financial Statements
For the Year Ended 30 June 2018

1 Statement of significant accounting policies (continued)

(d) Revenue

Interest revenue

Interest income for all interest earning assets, including those at fair value, is recognised in profit or loss using the effective interest rate method.

Non Accrual Loan Interest – while still legally recoverable, interest is not brought to account as income where the Company becomes aware that the loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board. Australian Prudential Regulation Authority (APRA) has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility, except where lenders' mortgage insurance has been obtained.

Fees and Commission Income

Loan establishment fees, discounts and other fees that are deemed to be an integral part of the effective interest rate are initially deferred as part of the loan balance and are brought to account as income over the expected life of the loan or other relevant period. The amounts brought to account are included as part of interest revenue. Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan. The amounts brought to account are included as part of interest revenue. An analysis of the Company's loan origination fees and associated cost structure indicated that the net amount of fee revenue required to be deferred is not material, and accordingly no deduction from loans has been made.

Other fees and commissions are generally recognised on an accrual basis over the period during which the service is provided.

(e) Loans and advances

Recognition and measurement

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

Loans to customers are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Company at balance date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the board of directors.

Interest earned

Term loans - interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a customers account on the last day of each month.

Overdraft – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a customers account on the last day of each month.

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a customers account on the last day of each month, on cash advances and purchases in excess of the payment due date.

Loan Impairment

Specific provision

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The amount provided for impaired loans is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

Notes to the Financial Statements
For the Year Ended 30 June 2018

1 Statement of significant accounting policies (continued)

(e) Loans and advances (continued)

Collective provision

APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages of the loan balance which are contingent upon the length of time the repayments are in arrears.

Credit asset impairment reserve

In addition to the above specific provision and collective provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for customers against the prospect that some borrowers will experience loan repayment difficulties. The reserve is based on an estimation of potential risk in the loan portfolio, the level of security taken as collateral and the nature of the loan.

The Australian Prudential Regulation Authority (APRA) requires that banks maintain a general reserve for credit losses to cover risks inherent in loan portfolios. In certain circumstances the collective provision can be included in this assessment.

Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Bad debts written off

Bad debts are written off from time to time as determined by management and the Board when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment if a provision had previously been recognised in respect to the loan. If no provision had been recognised, the write offs are recognised as expenses in the profit or loss.

Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

(f) Placement with other financial institutions

Term deposits, bank bills and negotiable certificates of deposit are unsecured and have a carrying amount equal to their purchase price. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in other receivables in the statement of financial position.

(g) Property, plant & equipment

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

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on valuations by external valuers at frequencies not exceeding three years, less subsequent depreciation for buildings. The fair value is assessed on an annual basis by the Directors.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant & equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

Notes to the Financial Statements
For the Year Ended 30 June 2018

1 Statement of significant accounting policies (continued)

(g) Property, plant & equipment (continued)

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives used for each class of depreciable assets are:

Buildings	40 years
Plant and equipment	4 to 15 years
Leasehold improvements	Term of the lease

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance date.

(h) Investment property

Investment properties are held to earn rentals and/or capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(i) Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Company are classified as intangible assets. Computer software held as intangible assets is amortised over the expected useful life of the software, generally 3 years.

(j) Impairment of assets

At each reporting date, the Company 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 the profit or loss.

(k) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and deposits held at call with banks net of bank overdrafts. Where bank overdrafts are held, they are shown within short term borrowings in current liabilities on the statement of financial position.

(l) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Notes to the Financial Statements
For the Year Ended 30 June 2018**1 Statement of significant accounting policies (continued)****(l) Income tax (continued)**

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. 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 taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(m) Good and services tax

As a financial institution the Company is input taxed on all income, except for income from commissions, rents and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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 balance sheet are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(n) Deposits from customers and wholesale investors

Customers' savings and term investments are measured at amortised cost, generally being the nominal balance outstanding to the credit of the depositor at balance date.

Interest on deposits is calculated on the daily balance and posted to the account periodically, or on maturity of the term deposit. Interest on deposits is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

(o) Employee benefits*Wages, salaries and annual leave*

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs such as workers compensation insurance and payroll tax. Annual leave expected to be taken after 12 months is discounted back to present value.

A provision is recognised for the amount to be paid under short-term cash bonus or profit-sharing plans if the Company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the Financial Statements
For the Year Ended 30 June 2018

1 Statement of significant accounting policies (continued)

(o) Employee benefits (continued)

Long service leave

The Company's obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates and is discounted using the rates attached to high quality corporate bond rates at the balance date which have maturity dates approximating to the terms of the Company's obligations.

Superannuation plans

Contributions to the employee's superannuation funds are recognised as an expense as they are made.

(p) Operating leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

The Company as Lessor:

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the term of the lease.

The Company as Lessee:

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(q) Classification and subsequent measurement of financial assets

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss.

Notes to the Financial Statements
For the Year Ended 30 June 2018

1 Statement of significant accounting policies (continued)

(q) Classification and subsequent measurement of financial assets (continued)

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss, are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables which is presented within other expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Company has the intention and ability to hold them until maturity. The Company currently holds term deposits ('TD'), negotiable certificates of deposit ('NCD'), floating rate negotiable certificates of deposit ('FRNCD') and floating rate notes ('FRN') in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as available for sale financial assets.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Notes to the Financial Statements
For the Year Ended 30 June 2018

1 Statement of significant accounting policies (continued)

(q) Classification and subsequent measurement of financial assets (continued)

Available For Sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

(r) Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include borrowings and trade and other payables. The subordinated debt arrangements are disclosed in note 19.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

(s) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either; in the principal market, or in the absence of a principal, in the most advantageous market.

Fair value is measured using the assumption that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising 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 the fair value of an assets 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.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2 Changes in accounting policies

There have been no material changes to accounting standards during the year applicable to the Company.

Certain accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to materially impact the financial report of the Company have not been reported.

(a) New accounting standards not yet adopted

AASB 9 Financial Instruments - Replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 addresses the classification and measurement of financial instruments, introduces new rules for hedge accounting and a new 'expected' credit loss model for calculating impairment on financial assets. This moves away from the current 'incurred' loss model required under AASB 139.

The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 July 2018.

All financial assets, with the exception of equity investments, are currently held at amortised cost under AASB 139.

These financial assets will continue to be measured on this basis under AASB 9.

Equity investments currently measured at amortised cost will be required to be measured at fair value through profit or loss (FVTPL) under AASB 9. The Company holds one equity investment, which is disclosed at Note 11. The financial impact of this change has been assessed as not being materially different from fair value and accordingly no adjustment will be made to the carrying value of the investment.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from AASB 139 and have not been changed. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

Under the expected credit loss model, the Company will be required to consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience, historical losses for similar financial instruments and forward-looking macroeconomic information.

Under AASB 9, a three stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to a full lifetime ECL is required.
- Stage 3: Similar to the current AASB 139 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

Notes to the Financial Statements

For the Year Ended 30 June 2018

2 Changes in accounting policies (continued)

(a) New accounting standards not yet adopted (continued)

AASB 9 Financial Instruments

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

For the purposes of calculating the expected credit loss the Company has broken down the loan portfolio into a number of different segments based on an assessment across a range of factors. The following table depicts the loan segments identified and the associated Risk Factor/Trigger at each stage :

Stage	Credit Type	Risk Factor / Trigger
1	All	No indicators of change in credit quality
2	Residential owner occupied, Residential investment, Commercial and Personal	Loans over 31-89 days past due
		Loans which on more than 2 occasions in the last 12 months were over 30 days past due
		Loans included on the hardships register
	Other	Loans 14-89 days past due
3	All	Loans included on the hardships register
		Loans 90 days or greater past due
		Loans assessed as 'non-performing' based on any other relevant factors

The Company performed a detailed historical loss analysis and identified minimal losses over the past 5 years. The low value of loss experienced in the past is reflective of the high quality of the loan book.

Based on the assessments undertaken to date, the Company expects minimal to no change in the loss allowance for loans with any change expected to be with a 25% variance of the current provision (refer note 10d) calculated in accordance with AASB 139.

In addition to the analysis performed on the Company's loan portfolio a detailed analysis was also conducted over financial assets classified at amortised costs with no history of loss identified. Accordingly the Company does not anticipate any change as a result of the new accounting standard.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the company's disclosures about its financial instruments particularly in the year of adoption of the new standard.

AASB 9 must be applied for financial years commencing on or after 1 January 2018. The Company intends to adopt the new standard in the 30 June 2019 financial statements, applying the new rules retrospectively from 1 July 2018 with the practical expedients permitted under the standard. Comparatives will not be restated.

AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers establishes a single comprehensive framework for use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the existing standards and interpretations relating to revenue recognition including AASB 118 Revenue.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or service. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1 : Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Notes to the Financial Statements

For the Year Ended 30 June 2018

2 Changes in accounting policies (continued)

(a) New accounting standards not yet adopted (continued)

Management have assessed that the following income stream/contract will be impacted by AASB 15:

- Non-Interest Income - Insurance Commission

The above non-interest income provides for the receipt of insurance commission with volume bonuses, marketing allowances, development allowances and strategic development allowances. Two performance obligations have been identified as follows:

- Signing up a customer to insurance; and
- Development and implementation of marketing campaigns to grow the number of insurance policies written.

Revenue will be recognised for each of these performance obligations when control over the delivery of the service has been transferred to Insurance Australia Limited (the customer). AASB 15 requires the transaction income to be allocated to different performance obligations on a relative stand-alone basis. The timing of revenue recognition for the two performance obligations will change once AASB 15 is applied. Based on the analysis undertaken to date, the Company expects minimal to no change to the commission income recognised, with any change expected to be below 10% of the current commission income recognised and calculated in accordance with AASB 118.

The overall impact of the adoption of AASB 15 is not considered to be significant for the Company as no other income streams or contracts have been identified that will be impacted by the adoption of AASB 15 and most of the Company's revenue arises from the provision of financial services, the recognition of which will be governed by AASB 9. AASB 9 continues the effective interest rate method for financial instruments carried at amortised cost. This is the method currently required under AASB 139.

AASB 15 is mandatory for financial years commencing on or after 1 January 2018. The Company intends to adopt the standard in the 30 June 2019 financial statements, using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 July 2018 and that comparatives will not be restated.

AASB 16 Leases

AASB 16 'Leases' - Replaces AASB 117 'Leases' and some lease related interpretations and is applicable for reporting periods beginning on or after 1 January 2019. For the Company, this means the 30 June 2020 financial statements.

AASB 16 requires all leases to be accounted for 'on-balance sheet' by lessees, other than short term and low value asset leases. It also provides new guidance on the application of the definition of lease and on sale and lease back accounting and requires new and different disclosures about leases.

Based on the Company's preliminary assessments, the likely impact on the transactions and balances recognised will be:

- an increase in property, plant and equipment and a corresponding increase in financial liabilities;
- the assets will be depreciated over the life of the leases; and
- lease payments will be split between interest and principal reduction, rather than being included in operating expenses.

Currently the Company leases a number of properties. The quantitative impact of this standard has not yet been determined by the Company.

Management are currently developing an implementation project to quantify the impact of this standard during the 2019 financial year. Note 25(c) to the financials discloses the current value of operating lease commitments which provides some insight into the potential financial impact once the standard is applicable.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

3 Interest revenue and expense

Interest revenue

Financial assets at amortised cost

Loans to customers	28,325,255	26,402,760
Placements with other financial institutions	2,106,813	2,102,051
Cash (bank accounts and at call deposits)	760,038	770,351
	<u>31,192,106</u>	<u>29,275,162</u>

Interest expense

Deposits	13,322,725	13,335,321
Subordinated debt	114,248	232,774
	<u>13,436,973</u>	<u>13,568,095</u>

Net interest income

<u>17,755,133</u>	<u>15,707,067</u>
-------------------	-------------------

4 Non interest income

Fees & Commission

Transaction fees	1,035,799	1,152,106
Loan fees (exc fees deemed to be integral to effective interest rate)	495,909	472,420
Insurance and other commission	473,426	453,957

Total fee and commission income

<u>2,005,134</u>	<u>2,078,483</u>
------------------	------------------

Other income

Rental income	253,477	284,625
Gain on disposal of property, plant and equipment and investment properties	30,956	1,264,721
Bad debts recovered	10,005	12,444
Fair value adjustment on investment properties	-	464,906
Other revenue	101,081	92,236

Total other income

<u>395,519</u>	<u>2,118,932</u>
----------------	------------------

Total non interest income

<u>2,400,653</u>	<u>4,197,415</u>
------------------	------------------

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

5 Specific expenses

Depreciation and amortisation

Plant and equipment	408,275	445,263
Owner-occupied buildings	44,816	62,710
Leasehold improvements	33,400	37,746
Amortisation of capitalised software	262,115	220,923
	<u>748,606</u>	<u>766,642</u>

Impairment expenses

Impairment expense for loans to customers	61,456	50,801
---	--------	--------

Rental expense on operating leases

Minimum lease payments	630,901	281,328
------------------------	---------	---------

Non-lending losses

Fraud from card transactions	11,373	4,461
------------------------------	--------	-------

APRA/ASIC

Supervision and filing fees	66,876	59,500
-----------------------------	--------	--------

Repairs to investment properties

Repairs and maintenance expenses	3,933	10,069
----------------------------------	-------	--------

Project costs

Rebranding	1,220,772	135,740
------------	-----------	---------

6 Income tax expense

The components of tax expense comprise:

Current tax expense	973,262	1,346,371
Deferred tax expense	(234,137)	57,936
	<u>739,125</u>	<u>1,404,307</u>

Reconciliation of income tax expense

Prima facie tax payable on profit before income tax at 30% (2017 - 30%)	697,846	1,456,650
Tax effect of:		
- non-deductible expenses	13,760	4,151
- other timing differences	7,446	(56,494)
- change in tax rate for recognition of DTA/DTL	20,073	-
	<u>739,125</u>	<u>1,404,307</u>

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

7 Cash

Cash on hand	1,333,963	1,353,794
Cash at bank	53,566,690	43,819,886
	<u>54,900,653</u>	<u>45,173,680</u>

8 Receivables

Trade and other receivables	222,386	70,142
Accrued interest receivable	309,150	350,336
	<u>531,536</u>	<u>420,478</u>

9 Placements with other financial institutions

Deposits with banks	7,000,000	9,288,222
Deposits with other financial institutions	6,274,394	13,245,350
Bank bills and negotiable certificates of deposit	57,548,883	54,731,100
	<u>70,823,277</u>	<u>77,264,672</u>

Credit quality

The Company uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA prudential guidance note AGN 112. The credit quality assessment scale within this guidance note has been complied with.

The exposure values associated with each credit rating level, based on Standard & Poor's ratings are as follows:

Authorised Deposit-taking Institutions rated A-1	14,500,000	14,788,222
Authorised Deposit-taking Institutions rated A-2	34,191,299	43,260,441
Authorised Deposit-taking Institutions rated A-3 & below	9,857,584	8,966,009
Authorised Deposit-taking Institutions unrated	12,274,394	10,250,000
	<u>70,823,277</u>	<u>77,264,672</u>

10 Customer loans and advances

Overdrafts and revolving credit facilities	6,175,837	6,684,915
Personal loans	15,446,275	10,184,318
Commercial loans	22,723,114	21,975,896
Residential loans	659,259,996	591,560,187
	<u>703,605,222</u>	<u>630,405,316</u>
Provision for impairment	(35,666)	(44,923)
	<u>703,569,556</u>	<u>630,360,393</u>

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

10 Customer loans and advances (continued)

(a) Concentration of risk

Exposure to groupings of individual loans which concentrate risk within particular geographical segments are as follows:

- Tasmania	692,539,138	617,829,166
- Other Australian states	11,066,084	12,576,150
	<u>703,605,222</u>	<u>630,405,316</u>

The Company does not have any significant exposure to any particular industry sectors or other groupings of customers, other than the loans that are predominantly for residential housing purposes.

The loans above do not include any loans to individual clients representing 10% or more of total loan assets.

(b) Security held against loans and advances

Secured by mortgage over residential property	659,259,996	594,163,328
Secured by mortgage over commercial property	22,723,114	21,975,896
Total loans and advances secured by real estate	<u>681,983,110</u>	<u>616,139,224</u>
Partly secured by goods mortgage	2,300,871	2,627,609
Wholly unsecured	19,321,241	11,638,483
	<u>703,605,222</u>	<u>630,405,316</u>

(c) Credit quality of loans

A majority of the portfolio of the loan book is secured by residential property in Tasmania. Therefore the Company is exposed to risks should the property market be subject to a decline. The risk of losses from loans is primarily reduced by the nature and quality of the security obtained.

It is not practical to value all collateral as at balance date due to the variety of assets and their nature and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

LVR less than 80%	447,230,752	386,234,614
LVR more than 80% but mortgage insured	204,956,343	192,062,300
LVR more than 80% and not mortgage insured	7,072,901	15,866,414
	<u>659,259,996</u>	<u>594,163,328</u>

(d) Provision for impairment

Collective provision	35,666	44,923
Specific provision	-	-
	<u>35,666</u>	<u>44,923</u>

(e) Provision for impairment - collective provision

Opening balance	44,923	41,813
Impaired loans previously provided for written off during the year	(1,864)	(67)
Impaired loans (reduced)/provided for during the year	(7,393)	3,177
Closing balance	<u>35,666</u>	<u>44,923</u>

(f) Impairment expense

Impaired loans (reduced)/provided for during the year	(7,393)	3,177
Bad debts recognised directly as an expense	68,849	47,624
	<u>61,456</u>	<u>50,801</u>

(g) Assets acquired through enforcement of security

Real estate	290,000	1,220,000
Motor vehicles	29,590	-
	<u>319,590</u>	<u>1,220,000</u>

Notes to the Financial Statements
For the Year Ended 30 June 2018

10 Customer loans and advances (continued)

(h) Past due and impaired loans

Past due loans are those where repayments by the borrower have not been maintained in accordance with the loan agreement. Past due loans are not considered impaired where they are well secured, generally over residential property, or where lenders mortgage insurance has been obtained, and as a result, it is expected that the Company will not suffer any loss in the event of continuing default by the borrower.

2018

Impaired Loans

	Less than 3 months past due \$	3 - 6 months past due \$	6 - 12 months past due \$	More than 12 months past due \$	Gross loan balance \$	Impairment provision \$	Net carrying value \$
Personal loans	-	29,223	-	9,881	39,104	(21,570)	17,534
Housing loans	-	9,043	-	-	9,043	(3,617)	5,426
Overdrafts & credit cards	-	722	11,445	2,123	14,290	(9,279)	5,011
Overdrawn savings accounts	1,923	351	63	105	2,442	(1,200)	1,242
	1,923	39,339	11,508	12,109	64,879	(35,666)	29,213

Past due not impaired

Personal loans	142,067	-	-	-	142,067	-	142,067
Overdrafts & credit cards	3,115	-	-	-	3,115	-	3,115
Commercial loans	201,113	-	-	-	201,113	-	201,113
Residential loans	1,446,378	-	182,928	-	1,629,306	-	1,629,306
	1,792,673	-	182,928	-	1,975,601	-	1,975,601

Total past due & impaired loans

	1,794,596	39,339	194,436	12,109	2,040,480	(35,666)	2,004,814
--	-----------	--------	---------	--------	-----------	----------	-----------

	Less than 3 months past due \$	3 - 6 months past due \$	6 - 12 months past due \$	More than 12 months past due \$	Gross loan balance \$	Impairment provision \$	Net carrying value \$
--	---	--------------------------------	---------------------------------	--	-----------------------------	-------------------------------	-----------------------------

2017

Impaired Loans

Commercial loans	-	102,177	-	-	102,177	(40,710)	61,467
Overdrawn savings accounts	8,798	-	-	-	8,798	(4,213)	4,585
	8,798	102,177	-	-	110,975	(44,923)	66,052

Past due not impaired

Overdrafts & credit cards	6,462	-	-	-	6,462	-	6,462
Residential loans	811,304	310,428	-	603,973	1,725,705	-	1,725,705
	817,766	310,428	-	603,973	1,732,167	-	1,732,167

Total past due & impaired loans

	826,564	412,605	-	603,973	1,843,142	(44,923)	1,798,219
--	---------	---------	---	---------	-----------	----------	-----------

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

11 Investments

Total Investments

Available for sale investments	96,146	96,146
--------------------------------	--------	--------

Available for sale investments

Shares in unlisted companies - at cost		
- Australian Settlements Limited	96,146	96,146

Shares in Australian Settlements Limited

The Company owns ordinary non-voting shares, ordinary shares and System Participation shares in Australian Settlements Limited which provide settlement services to the Company.

Shares at cost	96,146	96,146
Provision for impairment	-	-
	96,146	96,146

The shareholding in Australian Settlements Limited ('ASL') is measured at its cost value in the statement of financial position. ASL provides efficient settlement and transaction processing services to its members which are all mutual financial institutions. The Company holds shares in ASL to enable the Company to receive essential banking services. To receive these services certain requirements must be met including the following:

- Pay the required Mandated Prudential Funds (pre funding) to ASL as approved by APRA and the Reserve Bank ('RBA');
- Hold a shareholder / system participant share; and
- Agree to volunteer excess funds (agreed amount in excess of the prudential reserve) to cover daily RTGS payments.

The shares are able to be traded but within a market limited to other mutual financial institutions. The volume of shares traded in ASL is low.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

12 Property, Plant and equipment

Land and buildings

Freehold land		
At fair value	2,400,000	2,400,000
Total freehold land	2,400,000	2,400,000

Buildings

At fair value	1,850,000	1,854,975
Accumulated depreciation	(55,867)	(11,051)
Total buildings	1,794,133	1,843,924

Total Land and buildings

4,194,133	4,243,924
-----------	-----------

Plant and equipment

Plant and equipment		
At cost	4,366,901	4,245,249
Accumulated depreciation	(3,041,451)	(2,917,197)
Total plant and equipment	1,325,450	1,328,052

Leasehold improvements

At cost	688,391	608,544
Accumulated amortisation	(364,104)	(330,704)
Total leasehold improvements	324,287	277,840

Capital works in progress

At cost	596,636	507,036
---------	---------	---------

Total property, plant and equipment

6,440,506	6,356,852
-----------	-----------

(a) Valuations of land and buildings

Properties are independently valued at frequencies not exceeding three years. Opteon Property Group was engaged to conduct an independent valuation of the Company's properties as at 30 June 2017. The valuations were performed by:

Richard Edwards A.A.P.I., B.Com. (L. Economy), CPV

Gavin Lippelgoes A.A.P.I., Dip (Prop), B.Bus (Acc) FFin, CPV

The basis of the valuation of land and buildings is fair value, being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. In estimating the fair value of properties, the highest and best use of the properties is their current use.

The Directors do not believe there has been a material movement in fair value since the valuation date.

Refer to note 28 for further information on fair value measurement.

Notes to the Financial Statements

For the Year Ended 30 June 2018

12 Property, plant and equipment (continued)

(b) Movements in carrying amounts

	Land \$	Buildings \$	Leasehold imp. \$	Plant & Equipment \$	Work in progress \$	Total \$
Current year						
Carrying amount at beginning of year	2,400,000	1,843,924	277,840	1,328,052	507,036	6,356,852
Additions	-	-	-	142,041	860,324	1,002,365
Transfers between property, plant & equipment	-	-	79,847	318,306	(398,153)	-
Transfers from/(to) investment property	-	-	-	-	-	-
Transfers to intangibles	-	-	-	-	(372,571)	(372,571)
Revaluation increment/(decrement)	-	-	-	-	-	-
Disposals	-	(4,975)	-	(54,674)	-	(59,649)
Depreciation and amortisation expense	-	(44,816)	(33,400)	(408,275)	-	(486,491)
Carrying amount at end of year	2,400,000	1,794,133	324,287	1,325,450	596,636	6,440,506
Prior year						
Carrying amount at beginning of year	2,820,581	2,266,142	274,968	1,611,416	188,024	7,161,131
Additions	-	-	-	4,132	740,850	744,982
Transfers between property, plant & equipment	-	94,300	40,618	211,571	(346,489)	-
Transfers from/(to) investment property	95,000	95,000	-	-	(5,482)	184,518
Transfers to intangibles	-	-	-	-	(69,867)	(69,867)
Revaluation increment/(decrement)	905,000	751,128	-	-	-	1,656,128
Disposals	(1,420,581)	(1,299,936)	-	(53,804)	-	(2,774,321)
Depreciation and amortisation expense	-	(62,710)	(37,746)	(445,263)	-	(545,719)
Carrying amount at end of year	2,400,000	1,843,924	277,840	1,328,052	507,036	6,356,852

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

13 Investment property

At fair value

Balance at beginning of year	2,945,001	3,060,095
Transfers to property, plant & equipment	-	(184,518)
Revaluation increment	-	464,906
Disposals	-	(395,482)
Balance at end of year	2,945,001	2,945,001

The fair value model is applied to all investment property. Investment properties are revalued by the Directors annually and adjustments recorded where material. Values are based on an active liquid market and formal valuations are received by a registered independent valuer at least triennially. Details of the most recent independent valuations are contained in note 12.

The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties in the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investments. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Refer to note 28 for further information on fair value measurement.

14 Intangible assets

Computer software		
At cost	2,131,641	1,759,070
Accumulated amortisation	(1,681,047)	(1,418,932)
	450,594	340,138

Movement in carrying amount

Balance at beginning of year	340,138	491,194
Additions	-	-
Transfer from work in progress (in property, plant & equipment)	372,571	69,867
Amortisation expense	(262,115)	(220,923)
Carrying amount at end of the year	450,594	340,138

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

15 Wholesale deposits

Term deposits	117,516,262	69,089,792
Non-interest bearing term deposits	95,000	95,000
	<u>117,611,262</u>	<u>69,184,792</u>

16 Deposits from customers

Call deposits	253,703,012	235,159,518
Term deposits	392,113,007	380,139,629
	<u>645,816,019</u>	<u>615,299,147</u>

Concentration of deposits

Tasmanian residents	626,315,845	594,949,044
Other	19,500,174	20,350,103
	<u>645,816,019</u>	<u>615,299,147</u>

The deposits above do not include any deposits from individual clients representing 10% or more of total liabilities.

17 Trade and other payables

Creditors and other liabilities	1,831,115	1,930,863
Accrued interest - deposits	3,938,004	4,254,123
	<u>5,769,119</u>	<u>6,184,986</u>

18 Employee benefits

Accrued employee entitlements	494,122	225,933
Annual leave	487,844	471,055
Long service leave	448,266	353,915
	<u>1,430,232</u>	<u>1,050,903</u>

Included in employee benefits is a non-current amount of \$261,880 (2017: \$253,239) relating to long service leave.

19 Long term borrowings

Subordinated debt:

Balance at the beginning of the year	3,000,000	3,000,000
Less: Repayments	(3,000,000)	-
Balance at the end of the year	<u>-</u>	<u>3,000,000</u>

The Company entered into an agreement to issue subordinated debt in November 2012, which was approved by the Directors.

The debt instrument has a maturity date of 10 years but may be redeemed earlier subject to approval by APRA. On the 27th June 2017 the Company requested approval from APRA for the redemption of the Lower Tier 2 capital instrument and consequential capital reduction. Approval from APRA was received on the 18th July 2017. The redemption of the subordinated debt is in accordance with the conditions set out in the terms of the instrument and was redeemed effective 29th December 2017.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

20 Tax

(a) Liabilities

Current years tax payable

8,531	244,512
-------	---------

Current year tax payable comprises:

Opening balance

244,512	223,090
---------	---------

Less payments made in current year

(1,209,244)	(1,324,948)
-------------	-------------

Liability for income tax in current year

973,263	1,346,370
---------	-----------

8,531	244,512
-------	---------

Deferred tax liability comprises:

Property, plant & equipment

339,146	415,996
---------	---------

339,146	415,996
---------	---------

(b) Asset

Deferred tax assets comprise:

Provision for impairment

9,808	13,477
-------	--------

Accrued expenses not deductible until paid

135,192	94,235
---------	--------

Property, plant and equipment

36,692	-
--------	---

Employee entitlements provisions

257,431	247,491
---------	---------

Broker commissions - TOFA

120,815	47,447
---------	--------

559,938	402,650
---------	---------

21 Reserves

(a) Asset revaluation reserve

The asset revaluation reserve records revaluations of land and buildings.

(b) General reserve

The general reserve records funds set aside for future expansion of the Company.

(c) Credit asset impairment reserve

This reserve records amounts in accordance with note 1(e).

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

22 Cash flow information

(a) Operating cash flows reconciliation

Net profit after income tax is reconciled to net cash flows from operations as follows:

Net profit	1,587,029	3,451,193
Non-cash flows in profit from ordinary activities		
Depreciation and amortisation of property, plant & equipment	486,491	545,719
Amortisation of intangibles	262,115	220,923
Gain on disposal of property, plant & equipment and investment properties	(30,956)	(1,264,721)
Impairment expense	61,456	50,801
Revaluation increment	-	(464,906)
Changes in assets and liabilities		
Trade and other receivables	(111,058)	134,599
Prepayments	(223,805)	(12,879)
Deferred tax	(234,138)	57,938
Employee benefits	379,329	(100,877)
Trade and other payables	(280,071)	492,672
Accrued interest - deposits	(316,119)	716,253
Current tax payable	(235,981)	21,422
	<u>1,344,292</u>	<u>3,848,137</u>
Net increase in loans and advances	(73,270,619)	(47,610,026)
Net movement in wholesale deposits	48,426,470	(10,500,000)
Net movement in customer deposits	30,697,195	40,084,563
Net cash flow from operating activities	<u>7,197,338</u>	<u>(14,177,326)</u>

(b) Credit standby arrangements

An overdraft facility of \$1.5 million was available to the Company at the reporting date (2017: \$1.5 million). As at that date none of the overdraft facility was in use (2017: nil).

23 Segment information

The company operates in predominantly one business and geographical segment, being the finance industry in Australia, primarily in the State of Tasmania.

Notes to the Financial Statements
For the Year Ended 30 June 2018**24 Financial risk management****(a) Risk management objectives and policies**

The Company's activities expose it to a variety of financial risks including; market and interest rate risk, credit risk, liquidity risk, capital and operational risk. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and ageing analysis for credit risk. The independent risk control process does not include business risk such as changes in the environment, technology and industry. The Company's policy is to monitor those business risks through the Company's strategic planning process.

The Company manages these risks on a daily basis through the operational responsibilities of Executives and Senior Management. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherences to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(b) Capital management

Capital is the cornerstone of an Authorised Deposit-taking Institutions ('ADI') financial strength.

The primary role of capital is to:

- Maintain a cushion against loss to enable the Company to trade through difficult times.
- Absorb unanticipated losses from activities.
- Ensure safety of deposits thereby maintaining public confidence in the financial soundness and stability of the Company.

The Company is bound by the prudential standards as set by the prudential regulator, APRA. Under the standards governing capital, ADIs are required to hold capital equivalent to 8% of its risk weighted assets as measured under the relevant prudential standards. The Board has established a target capital ratio with a preferred range of 14% - 18%.

The Company has to date sourced capital from profits generated from the business, general reserves, asset revaluation reserves, general reserve for credit losses and subordinated debt. In an organic environment, the Company will endeavour to manage its capital ratio via normal operating conditions. Those will include initiatives such as:

- Improving the Company's profitability;
- Managing the Company's asset portfolio to ensure that the Company is not over exposed in higher risk weighted assets;
- Prudent management of the Company's interest rates to ensure products are priced adequately to reflect the various levels of risk associated with the product.

Notes to the Financial Statements
For the Year Ended 30 June 2018

24 Financial risk management (continued)

(b) Capital management (continued)

- Ensure that the Company is adequately protected from market risk;
- Ensure that other risks facing the Company are effectively monitored and managed; and
- Managing the rate of growth.

The Company prepares an annual budget together with a three year financial plan. The plan includes planned growth, projected projects and financial projections for the next three years and predicts capital adequacy for each of these periods.

The annual budget contains financial forecasts which provide management and the Board with an indication of the financial estimates for the coming 12 months of the Company's strategies and operations. Included in the financial report is a forecast of the Company's capital adequacy ratio. Management review the budgeted profit levels to ensure the Company receives a return on assets which keeps capital adequacy above internal limits.

On a monthly basis, management review actual accounting results against budgeted results. Management will also review the capital adequacy ratio on a monthly basis. Such results are provided to the Board each month.

For capital adequacy purposes, Authorised Deposit-taking Institutions must hold a minimum amount of Tier 1 capital. In addition they may include an amount of Tier 2 capital as part of their required capital holdings, up to the limits specified in the Prudential Standard (APS 110 Capital Adequacy).

The Prudential Standard sets out the essential characteristics that an instrument must have to qualify as Tier 1 or Tier 2 capital for inclusion in the capital base for assessing Level 1 and Level 2 capital adequacy.

Tier 1 Capital

The Majority of Tier 1 capital comprises:

- Retained profits
- General reserve
- Asset revaluation reserves on property

Deductions from Tier 1 capital are made for intangible assets, certain capitalised expenses, deferred tax assets and equity investments in other Authorised Deposit-taking Institutions (ADI's).

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility feature of equity, together with other components of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resource as set down by APRA.

Tier 2 capital mainly comprises:

- Subordinated debt
- Credit asset impairment reserve

For capital adequacy purposes, the capital base is defined as the sum of Tier 1 and Tier 2 capital after all specified deductions and adjustments, subject to various limits that apply.

During the past year the Company has complied in full with all its externally imposed capital requirements. The relevant amounts at 30 June, were:

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

24 Financial risk management (continued)

Capital adequacy ratio calculation

Tier 1 capital

Common equity tier 1 capital

Retained earnings	1,587,029	3,451,193
General reserve	64,344,617	60,893,424
Asset revaluation reserve	2,545,350	2,545,350
	<u>68,476,996</u>	<u>66,889,967</u>
Less prescribed deductions	(767,532)	(422,938)
Net tier 1 capital	<u>67,709,464</u>	<u>66,467,029</u>

Tier 2 capital

Credit asset impairment reserve	1,333,136	1,333,136
Subordinated debt	-	1,500,000
	<u>1,333,136</u>	<u>2,833,136</u>
Less prescribed deductions	-	-
Net tier 2 capital	<u>1,333,136</u>	<u>2,833,136</u>
 Total capital	 <u>69,042,600</u>	 <u>69,300,165</u>

The capital ratio as at the end of the financial year and over the past 5 years is as follows:

2018	2017	2016	2015	2014
17.51%	19.05%	18.66%	19.06%	18.60%

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

To manage the capital ratio, the Company reviews the ratio monthly and monitors major movements in the asset levels. The capital ratio is also reported to the Board on a monthly basis for their review.

(c) Market risk

Market risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company is primarily exposed to market risk arising from changes in market interest rate due to mismatches between repricing terms of financial assets and liabilities. The Company predominantly maintains an 'on book' strategy by ensuring the net difference between asset and liability maturities are not excessive. Financial instruments held by the Company do not give rise to any material direct exposure to currency or equity price risk.

Value at risk model

The Company monitors its interest rate risk exposure by the use of the value at risk model (VaR). VaR is a simulation model used to assess changes in the market value of financial instruments based on historical data from the past six years. It should be noted that because the VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Company could experience from an extreme market event. As a result of this limitation, the Company utilises a number of other risk measures (e.g. stress testing) and risk sensitivity limits to measure and manage interest rate risk.

Notes to the Financial Statements

For the Year Ended 30 June 2018

24 Financial risk management (continued)

(c) Market risk (continued)

VaR is a widely used statistical risk measure. It is defined as the minimum economic loss expected to be incurred on current holdings over a given holding period with a certain confidence interval due to changes in market conditions. It indicates the ability of a business to absorb future loss and is typically represented as a percentage of capital.

The VaR that the Company measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of the 99% confidence level means that, within a one-day horizon, losses exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days.

VaR is an integral part of the Company's interest rate risk management and is monitored on a monthly basis with results assessed against board approved limits. The following table shows the VaR for the Company over different holding periods at a 99% confidence level.

2018

Holding Period	VaR at 99% confidence level	99% as a Proportion of Capital
1 Day	(94,223)	-0.13%
10 Days	(297,958)	-0.43%
20 Days	(421,376)	-0.60%
1 Year	(1,459,691)	-2.08%

2017

Holding Period	VaR at 99% confidence level	99% as a Proportion of Capital
1 Day	(112,813)	-0.16%
10 Days	(356,745)	-0.50%
20 Days	(504,514)	-0.71%
1 Year	(1,747,687)	-2.47%

Using the above parameters, at 30 June 2018 the VaR was 0.13% (30 June 2017: 0.16%) of capital. The Company's risk appetite statement states that as a percentage of capital the Company's preferred VaR is <2%.

Interest rate exposure

The Company's policy is to manage its finance costs using a mix of fixed and variable rate debt. Management periodically reviews its interest rate exposure and consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

The interest rate risk is managed by:

- Continuously monitoring the 'gap' between yield on loans and investments and the cost of funds;
- Projecting the interest spread forward to future periods; and
- Amending interest rates on loans and/or deposits to ensure that an appropriate spread is maintained.

The Board has approved a policy to use interest rate swaps in order to hedge exposures should the need arise.

Notes to the Financial Statements
For the Year Ended 30 June 2018

24 Financial risk management (continued)

(d) Credit risk

Credit risk is the risk of financial loss to the Company if a borrower, customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivable from customers and investment securities.

The Company has established a risk management framework that is consistent with the Company's strategic objectives and business plan. It has been developed to assist the Company to identify, analyse and manage credit risk within the organisation. The risk management framework provides information that appropriately supports decision-making and oversight at each level of the credit risk assessment. The risk management framework also ensures that there is compliance with the credit risk policy and the Board's stated appetite for risk.

The Board approved risk appetite statement sets out the level of risk tolerance the business is willing to take across its operations including credit risk. The Company also operates within a Board approved risk management strategy that describes the key elements of the risk management framework that give effect to the Company's approach to managing risk.

The Company's risk appetite statement is expressed in the form of high-level qualitative statements that clearly captures the attitude and level of acceptance of credit risk. In setting the Company's risk appetite the Board takes into consideration a number of factors including:

- Strategic goals;
- Business plan;
- Risk profile relating to loan mix, loan concentration both geographic and large exposures, liquidity, delinquency, available capital and other factors;
- The regulatory environment;
- Quantitative data; and
- Other material factors available to assist in decision making.

The Board's objective in setting the credit risk appetite is to reduce risk to as low as reasonably practicable to achieve the desired strategic goals. The Board's risk appetite is incorporated in the Risk Appetite Statement and reflected in the Credit Risk Policy and the procedures and controls implemented to support the policy in each business unit.

The Company's credit risk management practices are organised into three distinct lines of risk ownership, risk review and oversight and independent assurance. This ensures a segregation of duties between (first line) units that enter into business transactions with customers or otherwise who expose the Company to risk, (second line) units in charge of risk oversight and control and (third line) the internal audit function.

Credit risk - loans

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

The Company has established policies over the:-

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

Notes to the Financial Statements

For the Year Ended 30 June 2018

24 Financial risk management (continued)

(d) Credit risk (continued)

The Company entered into a commitment deed with SocietyOne, a peer to peer lender of personal loans, on the 16th June 2017. The commitment deed states that the Company has committed to provide \$5,000,000 in loan funds to be called in \$250,000 parcels as required. As at 30 June 2018, \$3,500,000 (30 June 2017: \$250,000) had been provided to SocietyOne to issue as personal loans. As at 30 June 2018 \$3,202,417 in funds have been allocated as personal loans (30 June 2017: Nil), a further \$274,394 (30 June 2017: \$250,000) in funds remain as a cash balance with SocietyOne earning interest at 1% for a total commitment as at 30 June 2018 of \$3,476,811 (30 June 2017: \$250,000). Funds allocated to personal loans have been recognised as personal loans (refer note 10) while funds held with SocietyOne have been recognised as an investment (refer note 9).

The commitment deed outlines the risk profile of loans the Company has determined as acceptable and within the Company's risk appetite.

Impairment assessment

The main considerations for loan impairment assessment are as follows:

- a) whether any payments of principal or interest are overdue;
- b) whether there are any known difficulties in the cash flow of counterparties; or
- c) whether there are any infringements of the original terms of the contract.

The Company addresses impairment assessments in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan or advance on an individual basis, taking into account any overdue payments of interest, credit rating downgrades, or infringement of the original terms of the contract. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and for held-to-maturity debt investments that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Refer note 10 for additional disclosure regarding the aging of impaired loans and advances to customers.

Credit Risk - Liquid investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity. The Board policy is to maintain counterparty limits with A1+, A1 and A2 rated institutions to maximum of 50% of capital and other A3 or unrated institutions to a maximum of 25% of capital.

Refer to note 9 with regards to credit quality of placements with other financial institutions.

Maximum exposure to credit risk

The company's maximum exposure to credit risk, including both on balance sheet and off-balance sheet exposure is:

On-balance sheet exposure

Loans and receivables (amortised cost)

Placements with other financial institutions

Trade and other receivables

Off-balance sheet exposures

Loans approved not yet funded

Undrawn overdraft and revolving credit limits

Undrawn credit card limits

Redraw facilities on term loans

Undrawn line of credit

Funding commitment - SocietyOne

	2018 \$	2017 \$
Loans and receivables (amortised cost)	703,605,222	630,405,316
Placements with other financial institutions	70,823,277	77,264,672
Trade and other receivables	531,536	420,478
	<u>774,960,035</u>	<u>708,090,466</u>
Loans approved not yet funded	47,014,772	33,069,254
Undrawn overdraft and revolving credit limits	3,103,628	1,732,200
Undrawn credit card limits	5,723,406	5,092,558
Redraw facilities on term loans	46,010,207	40,077,468
Undrawn line of credit	2,518,241	1,754,561
Funding commitment - SocietyOne	1,500,000	2,250,000
	<u>105,870,254</u>	<u>83,976,041</u>
	<u>880,830,289</u>	<u>792,066,507</u>

Maximum exposure to credit risk

Information on the credit quality and collateral obtained in relation to these credit exposures is detailed in notes 9 & 10.

Notes to the Financial Statements

For the Year Ended 30 June 2018

24 Financial risk management (continued)

(e) Operational Risk

Operational risk is the risk of loss arising from systems failure, human errors, fraud or external event. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company manages these risks on a daily basis through the operational responsibilities of Executives and Senior Management functioning under policies approved by the Board after recommendations from the Risk Committee covering specific areas such as risk, fraud risk and business continuity risk.

(f) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk by:

- continuously monitoring actual daily cash flows and longer term forecast cash flows;
- monitoring the maturity profiles for financial assets and liabilities; and
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

The Company is required to maintain at least 9% of total adjusted liabilities as liquid assets (Minimum Liquidity Holdings 'MLH') capable of being converted to cash within 48 hours under the APRA prudential standard 'APS 210 Liquidity'. In order to ensure compliance with the requirements of APS 210 the Company became a non-transaction RITS (Reserve Bank Information and Transfer System) member with the RBA. RITS is Australia's high-value payment system which is used by authorised deposit taking institutions (ADI's) to settle payment obligations on a real time gross settlement basis. This membership also enables the Company to enter into a repurchase (or repo) agreement with the RBA. A repo agreement is the purchase or sale of securities with an agreement to sell or buy back the securities at an agreed date and price in the future. This facility therefore ensures that the Company has the ability to liquidate MLH assets within 48 hours as required by APS 210.

The Company's policy is to apply a minimum of 11% of funds as MLH assets to maintain adequate funds for meeting client withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level Management and Board are to address the matter and ensure that additional MLH funds are obtained from new deposits and available borrowing facilities.

In accordance with the Company's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

The liquidity ratio at 30 June 2018 was 14.61% (2017: 16.10%). The MLH ratio as at 30 June 2018 was 12.99% (2017: 13.22%).

Refer note 16 for details regarding concentration of deposits.

Maturity Analysis of Financial Instruments

This table details the Company's remaining contractual maturity for its non-derivative financial instruments. Contractual cash flows are based on the undiscounted total payment, including both principal and interest, on the earliest possible date on which the Company may be required to be paid.

Notes to the Financial Statements
For the Year Ended 30 June 2018

24 Financial risk management (continued)

(f) Liquidity risk (continued)

Maturity analysis of financial instruments

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

2018

Financial liabilities

	Carrying amount \$	Contractual cash flows \$	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Later than 5 years \$	No maturity \$
Call deposits	253,703,012	253,703,012	253,703,012	-	-	-	-	-
Term deposits	513,662,273	518,037,055	98,369,981	179,976,057	230,479,294	9,116,723	-	95,000
Trade and other payables	1,831,115	1,831,115	1,831,115	-	-	-	-	-
Long term borrowings	-	-	-	-	-	-	-	-
On balance sheet	769,196,400	773,571,182	353,904,108	179,976,057	230,479,294	9,116,723	-	95,000
Undrawn credit commitments	105,870,254	105,870,254	105,870,254	-	-	-	-	-
Total financial liabilities	875,066,654	879,441,436	459,774,362	179,976,057	230,479,294	9,116,723	-	95,000

Financial assets

Cash	54,900,653	54,900,653	54,900,653	-	-	-	-	-
Trade and other receivables	222,386	222,386	222,386	-	-	-	-	-
Placements with other financial institutions	71,132,427	73,878,034	16,534,699	25,072,067	3,085,405	28,911,469	-	274,394
Loans and advances	703,569,556	1,083,537,748	4,565,853	9,098,460	40,697,733	209,725,289	819,450,413	-
Other investments	96,146	96,146	-	-	-	-	-	96,146
Total financial assets	829,921,168	1,212,634,967	76,223,591	34,170,527	43,783,138	238,636,758	819,450,413	370,540

Notes to the Financial Statements
For the Year Ended 30 June 2018

24 Financial risk management (continued)

(f) Liquidity risk (continued)

Maturity analysis of financial instruments (continued)

	Carrying amount \$	Contractual cash flows \$	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Later than 5 years \$	No maturity \$
2017								
Financial liabilities								
Call deposits	235,159,518	235,159,518	235,159,518	-	-	-	-	-
Term deposits	453,578,544	459,035,847	67,748,764	162,118,430	213,948,037	15,125,616	-	95,000
Trade and other payables	1,930,863	1,930,863	1,930,863	-	-	-	-	-
Long term borrowings	3,000,000	3,000,000	-	-	-	-	3,000,000	-
On balance sheet	693,668,925	699,126,228	304,839,145	162,118,430	213,948,037	15,125,616	3,000,000	95,000
Undrawn credit commitments	83,976,041	83,976,041	83,976,041	-	-	-	-	-
Total financial liabilities	777,644,966	783,102,269	388,815,186	162,118,430	213,948,037	15,125,616	3,000,000	95,000
Financial assets								
Cash	45,173,680	45,173,680	45,173,680	-	-	-	-	-
Trade and other receivables	70,142	70,142	70,142	-	-	-	-	-
Placements with other financial institutions	77,615,008	79,610,004	11,030,288	30,664,785	12,139,493	25,525,438	-	250,000
Loans and advances	630,360,393	975,524,517	4,128,983	8,238,967	36,802,098	187,058,279	739,296,190	-
Other investments	96,146	96,146	-	-	-	-	-	96,146
Total financial assets	753,315,369	1,100,474,489	60,403,093	38,903,752	48,941,591	212,583,717	739,296,190	346,146

Notes to the Financial Statements
For the Year Ended 30 June 2018

24 Financial risk management (continued)

(f) Liquidity risk (continued)

Effective interest rates and repricing analysis

Interest rate risk in the statement of financial position arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Company's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The tables for both the 2018 and 2017 financial years detail the exposure of the Company's assets and liabilities to interest rate risk. The amount shown represents the face value of assets and liabilities. Term Deposits and Placements with other financial institutions include interest accrued to the reporting date.

The interest rate shown is the effective interest rate or weighted average effective interest rate in respect of a class of assets for liabilities. For floating rate instruments the rate is the current market rate; for fixed rate instruments the rate is a historical rate. The bandings reflect the earlier of the next contractual repricing date or the maturity date of the asset or liability.

	Weighted avg interest %	Carrying amount \$	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Later than 5 years \$	Non-interest Bearing \$
2018								
Financial liabilities								
Call deposits	0.45%	253,703,012	253,703,012	-	-	-	-	-
Term deposits	2.48%	513,662,273	98,269,777	179,527,847	227,306,194	8,463,455	-	95,000
Trade and other payables	N/A	1,831,115	-	-	-	-	-	1,831,115
Long term borrowings	N/A	-	-	-	-	-	-	-
		769,196,400	351,972,789	179,527,847	227,306,194	8,463,455	-	1,926,115
Financial assets								
Cash	1.54%	54,900,653	54,900,653	-	-	-	-	-
Trade and other receivables	N/A	222,386	-	-	-	-	-	222,386
Placements with other financial institutions	3.15%	71,132,427	27,430,302	43,702,125	-	-	-	-
Loans and advances	4.30%	703,569,556	602,260,811	9,681,772	40,707,494	50,801,867	117,612	-
Other investments	N/A	96,146	-	-	-	-	-	96,146
		829,921,168	684,591,766	53,383,897	40,707,494	50,801,867	117,612	318,532

Notes to the Financial Statements
For the Year Ended 30 June 2018

24 Financial risk management (continued)

(f) Liquidity risk (continued)

Effective interest rates and repricing analysis (continued)

	Weighted avg interest %	Carrying amount \$	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Later than 5 years \$	Non-interest Bearing \$
2017								
Financial liabilities								
Call deposits	0.42%	235,159,518	235,159,518	-	-	-	-	-
Term deposits	2.65%	453,578,544	67,681,103	161,436,484	210,418,040	13,947,917	-	95,000
Trade and other payables	N/A	1,930,863	-	-	-	-	-	1,930,863
Long Term Borrowings	7.25%	3,000,000	-	3,000,000	-	-	-	-
		693,668,925	302,840,621	164,436,484	210,418,040	13,947,917	-	2,025,863
Financial assets								
Cash	1.41%	45,173,680	45,173,680	-	-	-	-	-
Trade and other receivables	N/A	70,142	-	-	-	-	-	70,142
Placements with other financial institutions	2.58%	77,615,008	20,598,800	52,033,335	4,982,873	-	-	-
Loans and advances	4.37%	630,360,393	542,152,786	2,505,592	17,250,212	68,451,803	-	-
Other investments	N/A	96,146	-	-	-	-	-	96,146
		753,315,369	607,925,266	54,538,927	22,233,085	68,451,803	-	166,288

Notes to the Financial Statements
For the Year Ended 30 June 2018

24 Financial risk management (continued)

(g) Financial instruments fair value

AASB 13 'Fair Value Measurement' states that fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal of most advantageous market at measurement date.

Under AASB 13 all financial and non-financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

- a) quoted prices (unadjusted) in active markets for identical asset or liabilities (level 1);
- b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The fair value of a financial instrument is required to be disclosed where the financial instruments are not measured at fair value in the statement of financial position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

Assets where the fair value is lower than the book value have not been written down in the accounts of the Company on the basis that they are held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

Refer note 28 for additional disclosures regarding fair value of financial instruments.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

25 Financial commitments

(a) Credit commitments

The Company had binding commitments to extend credit, which are reflected as off-balance sheet exposures in Note 24(d). These represent agreements to lend to a client as long as there is no violation of any condition in the contract.

(b) Capital expenditure commitments

Capital expenditure commitments contracted for purchase of:

- Property, plant & equipment (not later than 1 year)	54,560	10,185
- Intangibles (not later than 1 year)	102,122	194,350
	<u>156,682</u>	<u>204,535</u>

(c) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements.

Payable - minimum lease payments

- within 12 months	726,220	500,718
- between 12 months and 2 years	622,606	481,378
- between 2 years and 5 years	1,721,287	1,384,687
- greater than 5 years	1,293,748	1,335,202
	<u>4,363,861</u>	<u>3,701,985</u>

Operating lease receivables

Operating lease receivables relate to the investment property owned by the Company with lease terms of between 3 to 5 years, with an option to extend for a further term. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned by the Company from its investment properties and direct operating expenses arising on the investment properties for the year are set out in note 4 and 5 respectively.

Receivable - minimum lease payments

- within 12 months	191,458	228,500
- between 12 months and 2 years	131,598	157,126
- between 2 years and 5 years	197,397	265,277
- greater than 5 years	-	-
	<u>520,453</u>	<u>650,903</u>

Notes to the Financial Statements

For the Year Ended 30 June 2018

26 Related party disclosures

(a) Names of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel comprise the Directors of the Company and members of the executive management listed below, who are responsible for the day to day financial and operational management of the Company.

The following were key management personnel of the Company at any time during the reporting period and unless indicated otherwise were key management personnel for the entire period.

Directors

Stephen Brown (Chairman)	
Lyn Cox	
Mark Nugent	
Keryn Nylander	
Mac Russell	Retired 31st October 2017
Scott Newton	
Robert King	Appointed 28th November 2017

Executives

Paul Ranson	Chief Executive Officer
Gerald White	Chief Financial Officer and Company Secretary
Susie Russell	Chief Projects Officer
Jill Jetson-Shumbusho	Chief Customer & People Officer
Natasha Whish-Wilson	Chief Risk Officer

(b) Key management personnel compensation

The aggregate compensation of key management personnel during the year comprising amounts paid, payable or provided for was as follows:

	2018 \$	2017 \$
Short term employee benefits		
Salaries and fees	1,385,736	1,116,393
Net increase in annual leave provision	16,703	9,516
Non-cash benefits	17,670	40,597
Post Employment benefits		
Superannuation contributions	152,370	211,615
Other long term benefits		
Long service leave taken	2,571	25,272
Net increase/(decrease) in long service leave provision	29,251	(33,161)
	<u>1,604,301</u>	<u>1,370,232</u>

Public disclosure of remuneration

In accordance with APS 330 Public Disclosure requirements, the Company is required to include both qualitative and quantitative disclosures for senior managers and material risk takers in the Regulatory Disclosure section on their website.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

26 Related party disclosures (continued)

(c) Loans to key management personnel

The Company has provided loans to a number of key management personnel. The aggregate amount of transactions in relation to these loans as at balance date are:

Loans advanced during the year	1,415,012	817,542
Loan redraws during the year	-	33,621
Interest revenue recognised	104,855	76,513
Loan repayments received during the year	611,800	1,006,699
Balance of loans outstanding at year end	3,104,188	2,196,213

The Company's policy for lending to Directors is that all loans are approved on the same terms and conditions which applied to customers of each class of loan. Key management personnel who are not Directors are entitled to the benefits package offered through the Company's staff benefits program on the same basis as available to all employees. There are no loans which are impaired in relation to the loan balances with Directors or other key management personnel.

There are no benefits or concessional terms and conditions applicable to close family members of key management personnel. There are no loans with close family members of key management personnel which are impaired.

(d) Deposits from key management personnel

The Company holds deposits from key management personnel. All transactions have been entered into on the same terms and conditions as those available to other members.

Total balance of deposits	1,836,648	1,427,876
Interest expense recognised	34,826	39,929

There are no benefits or concessional terms and conditions applicable to close family members of key management personnel.

(e) Other transactions with related parties

The Company and/or borrowing clients have received services from entities related to Directors. Scott Newton is currently CEO of Knight Frank Tasmania and IPST Pty Ltd, the ownership entity controlling Knight Frank Tasmania and formerly Opteon Property Group Tasmania. Knight Frank Tasmania and IPST Pty Ltd sold its shareholding in Opteon Property Group Tasmania on 1 March 2017. During the year the Company has leased premises and car parks from Nekon Pty Ltd via managing agent Knight Frank. The Company appointed Knight Frank as selling agent for the disposal of the Devonport and Rosny properties during the 2017 financial year. The aggregate amount paid for these services is listed below. All transactions have been entered into on terms and conditions no more favourable than those available to other suppliers. Refer also note 12 & 13 for further information on valuation services provided.

Valuation fees - Opteon Property Group Tasmania*	-	95,424
Rent expense and car parking lease - Nekon Pty Ltd	228,876	52,890
Knight Frank Tasmania agency fee	-	81,056

* ceased to be a related party 1 March 2017

Notes to the Financial Statements
For the Year Ended 30 June 2018

2018	2017
\$	\$

27 Auditors' remuneration

Amounts received or due and receivable by the external auditor (or related entity) of the Company (excluding GST) for:

Audit of the financial statements of the Company	78,595	74,670
Other regulatory assurance services	14,120	12,850
	<u>92,715</u>	<u>87,520</u>

Other transactions between the external auditor (or related entity) and the Company (excluding GST):

Mortgage broking commissions paid to related entity of external auditor	2,743	3,516
Lease premise rental income received from related entity of external auditor	39,785	29,440

Further, Pinnacle (part of the Crowe Horwath Group), leased premises from the Company during the current and previous financial year. Rental income received from Pinnacle is disclosed above.

All transactions have been entered into on terms and conditions no more favourable than those available to other customers or suppliers.

Notes to the Financial Statements

For the Year Ended 30 June 2018

28 Fair value measurement

Net fair values

The aggregate net fair values of financial assets and liabilities, both recognised and unrecognised, at the balance date are as follows:

Financial Instruments	Notes	Total carrying amount		Aggregate net fair value	
		2018	2017	2018	2017
		\$	\$	\$	\$
Financial Liabilities					
Call deposits	16	253,703,012	235,159,518	253,703,012	235,159,518
Term deposits	15 & 16	513,662,273	453,578,544	514,375,009	455,077,590
Trade & other payables*	17	1,831,115	1,930,863	1,930,863	1,930,863
Long term borrowings	19	-	3,000,000	-	3,000,000
Total Financial Liabilities		769,196,400	693,668,925	770,008,884	695,167,971
Financial Assets					
Cash	7	54,900,653	45,173,680	54,900,653	45,173,680
Trade & other receivables*	8	222,386	70,142	222,386	70,142
Placements with other financial institutions	9	71,132,427	77,615,008	71,328,467	77,804,112
Loans & advances	10	703,569,556	630,360,393	709,871,084	634,930,621
Other investments	11	96,146	96,146	96,146	96,146
Total Financial Assets		829,921,168	753,315,369	836,418,736	758,074,701

* Interest receivable or interest payable is included as part of the fair value of the various financial instruments.

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

Recognised financial instruments

Call deposits & term deposits

The carrying amount approximates fair value for call deposits as they are at call. The fair value of term deposits are estimated using discounted cash flow analysis based on current market rates for term deposits.

The Company has assessed its own credit risk in regards to the fair value of deposits, and has assessed that no material valuation adjustment is required based on the capital management system utilised by the Company as outlined in note 24(b).

Trade & other payables

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

Long term borrowings

The carrying value approximates net fair value as it reprices frequently.

Cash & cash equivalents

The carrying amount approximates fair value because they have either a short term to maturity or are receivable on demand.

Trade & other receivables

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

Placements with other financial institutions

The fair value of placements with other financial institutions that are not traded in an active market are determined using discounted cash flow analysis with terms to maturity that match, as closely as possible, the estimated future cash flows.

Loans & advances

The carrying value of customer loans is net of unearned income and specific provisions for doubtful debts. The net fair value for loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio of future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term.

Other investments

Investments in unlisted equity investments are carried at cost and considered 'level 3' assets as their fair value could not be reliably measured due to the unlisted nature of these investments. There is no immediate intention to dispose of these investments.

Notes to the Financial Statements
For the Year Ended 30 June 2018

28 Fair value measurement (continued)

Fair Value Hierarchy

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities.

Notes	Fair Value as at 30 June 2018				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$	
Assets measured at fair value					
Investment property	13	-	2,945,001	-	2,945,001
Land & buildings	12	-	4,194,133	-	4,194,133
Total assets measured at fair value		-	7,139,134	-	7,139,134
Assets for which fair values are disclosed					
Cash		-	54,900,653	-	54,900,653
Trade & other receivables		-	-	222,386	222,386
Placements with other financial institutions		-	71,328,467	-	71,328,467
Loans & advances		-	-	709,871,084	709,871,084
Other investments		-	-	96,146	96,146
Total assets for which fair value is disclosed		-	126,229,120	710,189,616	836,418,736
Liabilities for which fair values are disclosed					
Call deposits		-	253,703,012	-	253,703,012
Term deposits		-	514,375,009	-	514,375,009
Trade & other payables		-	-	1,930,863	1,930,863
Subordinated debt		-	-	-	-
Total liabilities for which fair values are disclosed		-	768,078,021	1,930,863	770,008,884

There have been no transfers between levels during the year.

Notes	Fair Value as at 30 June 2017				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$	
Assets measured at fair value					
Investment property	13	-	2,945,001	-	2,945,001
Land & buildings	12	-	4,243,924	-	4,243,924
Total assets measured at fair value		-	7,188,925	-	7,188,925
Assets for which fair values are disclosed					
Cash		-	45,173,680	-	45,173,680
Trade & other receivables		-	-	70,142	70,142
Placements with other financial institutions		-	77,804,112	-	77,804,112
Loans & advances		-	-	634,930,621	634,930,621
Other investments		-	-	96,146	96,146
Total assets for which fair value is disclosed		-	122,977,792	635,096,909	758,074,701
Liabilities for which fair values are disclosed					
Call deposits		-	235,159,518	-	235,159,518
Term deposits		-	455,077,590	-	455,077,590
Trade & other payables		-	-	1,930,863	1,930,863
Subordinated debt		-	3,000,000	-	3,000,000
Total liabilities for which fair values are disclosed		-	693,237,108	1,930,863	695,167,971

Notes to the Financial Statements

For the Year Ended 30 June 2018

28 Fair value measurement (continued)

Valuation techniques for fair value measurements categorised with level 2

Land and buildings, including investment properties, have been valued based on similar assets, location and market conditions.

Level 2 assets and liabilities

Movements in level 2 assets and liabilities during the current and previous financial year are as set out below:

	Investment properties \$	Land and buildings \$	Total \$
Balance as 1 July 2016	3,060,095	5,086,723	8,146,818
Transfers	(184,518)	284,300	99,782
Disposals	(395,482)	(2,720,517)	(3,115,999)
Gains recognised in other comprehensive income	-	1,656,128	1,656,128
Revaluation increment through profit and loss	464,906	-	464,906
Depreciation expense	-	(62,710)	(62,710)
Balance at 30 June 2017	2,945,001	4,243,924	7,188,925
Additions	-	-	-
Transfers	-	-	-
Gains recognised in other comprehensive income	-	-	-
Revaluation increment through profit and loss	-	-	-
Disposals	-	(4,975)	(4,975)
Depreciation expense	-	(44,816)	(44,816)
Balance as at 30 June 2018	2,945,001	4,194,133	7,139,134

29 Subsequent events

As part of the transition to a Customer Owned Bank, the Company is required by the Australian Prudential Regulation Authority (APRA) to develop an internal securitisation program for the purposes of contingent liquidity. To fulfil this requirement a Special Purpose Entity (SPE) must be created through which the securitisation exposures will be held. The Company has commenced the first stage in the process to formally establish the SPE by executing the 'Australian Mutuals Group Funding Platform Deed of Accession' (Accession Deed) on 25th July 2018.

Under the Accession Deed Perpetual Corporate Trust Limited (ABN 99 000 341 533) were appointed "Trustee"; P.T. Limited (ABN 67 004 454 666) were appointed "Security Trustee"; B & E Limited (ABN 32 087 652 088) were appointed "New Manager", "New Trust Administrator", "New Servicer", "New Seller" and "New Subscriber".

With the Accession Deed executed, the Tamar Trust was declared on 25th July 2018 through the Trustee's execution of the 'Notice of Creation of Trust - Tamar Trust', and the 'Notice of Creation of Security Trust - Tamar Trust Repo Series No. 1 Security Trust'.

It is anticipated the first Notes to be issued by the 'Tamar Trust Repo Series No.1' will be on or around 26th September 2018 at which time a securitisation exposure will commence.

Upon issuing the Notes, application will be made to register the relevant securities as an Eligible Security under the Reserve Bank of Australia (RBA) open market operations.

The Tamar Trust currently has no assets or liabilities.

Auditor Independence Declaration Under S307C of the *Corporations Act 2001* to the Directors of B&E Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2018 there have been no contraventions of:

- 1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- 2) Any applicable code of professional conduct in relation to the audit.

CROWE HORWATH TASMANIA



DAVID MUNDAY
Partner

28 August 2018
Melbourne

B&E Ltd

Independent Auditor's Report to the Members of B&E Ltd

Opinion

We have audited the financial report of B&E Ltd (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of B&E Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards report and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

CROWE HORWATH TASMANIA



DAVID MUNDAY
Partner

28 August 2018
Melbourne