

B&E Ltd

Annual Report 2015/2016



DIRECTORS' REPORT

For the year ended 30 June 2016

Your directors submit their report for the year ended 30 June 2016.

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 (Deputy Chairman)

Mr Cox worked in public accounting from 1970 and was a partner of Deloitte Touche 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 was appointed B&E Ltd Deputy Chairman in October 2014, 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 the Tasmanian Development Board. She is currently Chairman of Fahan School.

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

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 Lemonthyme Lodge. He has served as State and National President of the National Electrical and Communications Association. His recent roles include being Chair of Connect Superannuation and the Australian Technical College Northern Tasmania. Current involvements include being a Director of Degree C Pty Ltd and Chair of a private investment and property company.

Mr Russell was appointed as a B&E Ltd Director in April 2008 and is a member of the Board Remuneration Committee and the Board Corporate Governance Committee. Mr Russell was also Chairman of B&Z JV Pty Ltd, a related party of B&E Ltd. He was appointed to this role effective 21 February 2013 and resigned 22nd July 2016 when B&E Ltd sold its 50% share.

Mark Anthony NUGENT BCom CPA AICD

Mr Nugent is Chief Financial Officer and Corporate Services Manager 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 B&E Ltd 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)

Mr Newton is currently CEO of Knight Frank Tasmania and IPST Pty Ltd, the ownership entity controlling Knight Frank Tasmania and Opteon Property Group Tasmania, the state's largest property services business. 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 B&E Ltd Director on 26 October 2014 and is a member of the Board Audit Committee and Board Risk Committee.

DIRECTORS' REPORT (continued)

For the year ended 30 June 2016

ADVISOR**Sally Anne DARKE BEC**

Mrs Darke has been involved in recruitment, human resource consulting, training and project management for 19 years and was previously employed by KPMG as a Director in the consulting division (resigned 31 December 2015). She is a past State Councillor with the Australian Institute of Company Directors, a past Director of AFL Tasmania, and a current Board member of Scotch Oakburn College. Mrs Darke was a Director of B&E from 1995, until her resignation as a Director in November 2005, when she commenced as an advisor to the Board and to its Corporate Governance and Remuneration Committees. Mrs Darke served as Board Chairman 2002-2005. Mrs Darke's contract as Board Advisor expires on the 31st August 2016.

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. Gerald is also the Company Secretary of B&Z JV Pty Ltd a related party of B&E Ltd and was appointed to this role effective 1 August 2013 and resigned 22 July 2016 when B&E Ltd sold its 50% share.

	BOARD OF DIRECTORS MEETINGS		MEETINGS OF COMMITTEES							
			Risk		Audit		Remuneration		Corporate Governance	
Meetings held:	13		5		4		3		2	
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	13	14	-	-	-	-	3	3	2	2
L T Cox	13	10	5	5	4	4	-	-	-	-
K L Nylander	13	14	-	-	-	-	3	3	2	2
C M Russell	13	10	-	-	-	-	3	2	2	2
M A Nugent	13	14	5	5	4	4	-	-	-	-
S Newton	13	14	5	5	4	4	-	-	-	-
S A Darke *	13	14	-	-	-	-	3	3	2	2

* Advisor to the B&E Board and B&E Board Committees

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 \$3,216,745 (2015: \$3,617,295).

Significant Changes In Affairs

There were no significant changes in the state of affairs of the Company during the financial year.

DIRECTORS' REPORT (continued)

For the year ended 30 June 2016

Events Subsequent to Balance Date

In the interval between the end of the financial period and the date of this report, no matter or circumstance has arisen that, in the Directors' opinion, has significantly affected or may significantly affect:

- i. the operations of the Company; or
 - ii. the results of those operations; or
 - iii. the state of affairs of the Company;
- in subsequent financial years.

Review of Operations

The year under review recorded good results in all areas of business operations. A strong improvement in loans approved of \$139 million (2015: \$104 million) with the total loan portfolio growing by \$36.1 million to \$582.8 million.

Profit before income tax for the year was \$4,589,519 (2015: \$5,161,913).

The profit result for the year was impacted by a decrease in net interest margin as a result of interest rate reductions and competition.

Total assets increased 3.21% to \$727.9 million (2015: increased 4.05% to \$704.8 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 30 August 2016

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 2016 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 _____

Dated at Launceston 30 August 2016

B&E Ltd

Financial statements

For the year ended 30 June 2016

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Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2016

	Notes	2016 \$	2015 \$
Interest revenue	3	30,839,839	32,678,118
Interest expense	3	(14,709,372)	(16,793,292)
Net interest income		<u>16,130,467</u>	<u>15,884,826</u>
Non-interest income	4	<u>2,319,663</u>	<u>2,296,669</u>
		<u>2,319,663</u>	<u>2,296,669</u>
Non-interest expenses			
Fees & commission expense		(1,547,538)	(1,500,587)
Impairment expense	5	4,119	(95,635)
Marketing costs		(761,929)	(900,781)
Employee costs		(7,566,355)	(6,915,126)
Communications and information technology expense		(895,696)	(733,954)
Occupancy costs		(1,515,327)	(1,423,966)
Administrative costs		<u>(1,577,885)</u>	<u>(1,449,533)</u>
Profit before income tax		4,589,519	5,161,913
Income tax expense	6	<u>(1,372,774)</u>	<u>(1,544,618)</u>
Profit after income tax		<u>3,216,745</u>	<u>3,617,295</u>
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain/(Loss) on revaluation of buildings		-	-
Income tax attributable to revaluation		-	-
Total other comprehensive income, net of income tax		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME		<u><u>3,216,745</u></u>	<u><u>3,617,295</u></u>

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

B&E Ltd

Statement of Financial Position

As At 30 June 2016

Notes	2016 \$	2015 \$
ASSETS		
Cash	7 54,772,061	54,069,967
Trade receivables	8 555,077	554,458
Placements with other financial institutions	9 78,144,075	91,929,683
Loans to members	10 582,801,168	546,645,414
Investments	11 106,146	106,146
Prepayments	230,550	161,822
Property, plant & equipment	12 7,161,131	7,758,529
Investment property	13 3,060,095	3,060,095
Deferred tax	20(b) 545,402	507,148
Intangible assets	14 491,194	79,758
TOTAL ASSETS	727,866,899	704,873,020
LIABILITIES		
Deposits from other financial institutions	15 45,245,000	44,622,728
Deposits from members	16 609,851,859	590,118,001
Trade and other payables	17 4,778,578	5,114,787
Employee benefits	18 1,151,780	1,370,774
Current tax liabilities	20(a) 223,090	218,915
Deferred tax liabilities	20(a) 3,972	31,940
Long term borrowings	19 3,000,000	3,000,000
TOTAL LIABILITIES	664,254,279	644,477,145
NET ASSETS	63,612,620	60,395,875
MEMBERS' EQUITY		
Reserves	63,612,620	60,395,875
TOTAL MEMBERS' EQUITY	63,612,620	60,395,875

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

Statement of Changes in Members' Equity

For the Year ended 30th June 2016

	Retained earnings \$	Asset revaluation reserve \$	General reserve \$	Credit asset impairment reserve \$	Total \$
Balance at 1 July 2015	-	2,875,515	56,455,616	1,064,744	60,395,875
Net profit for the period	3,216,745	-	-	-	3,216,745
Transfers to and from reserves					
General reserve	(3,216,745)	-	3,216,745	-	-
Asset revaluation reserve	-	-	-	-	-
Credit asset impairment reserve	-	-	(70,837)	70,837	-
Equity as at 30 June 2016	-	2,875,515	59,601,524	1,135,581	63,612,620

For the Year ended 30th June 2015

	Retained earnings \$	Asset revaluation reserve \$	General reserve \$	Credit asset impairment reserve \$	Total \$
Balance at 1 July 2014	-	2,875,515	52,735,884	1,167,181	56,778,580
Net profit for the period	3,617,295	-	-	-	3,617,295
Transfers to and from reserves					
General reserve	(3,617,295)	-	3,617,295	-	-
Asset revaluation reserve	-	-	-	-	-
Credit asset impairment reserve	-	-	102,437	(102,437)	-
Equity as at 30 June 2015	-	2,875,515	56,455,616	1,064,744	60,395,875

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 2016**

Notes	2016 \$	2015 \$
Cash flows from operating activities:		
Interest received	30,824,774	32,804,287
Interest paid	(15,314,939)	(17,133,312)
Payments to suppliers	(4,735,749)	(5,609,818)
Other receipts	2,334,093	2,277,521
Payments to employees	(7,908,838)	(7,083,143)
Income taxes paid	(1,434,821)	(1,401,713)
22(a)	<u>3,764,520</u>	<u>3,853,822</u>
<i>(Increase)/decrease in operating assets:</i>		
Net increase in loans and advances	(36,151,634)	(5,887,840)
Net movement in deposits from other financial institutions	622,272	(13,491,012)
Net movement in member deposits	19,296,326	37,582,883
Net cash provided by/(used in) operating activities	22(a) <u>(12,468,516)</u>	<u>22,057,853</u>
Cash flows from investing activities:		
Net increase in placements with other financial institutions	13,785,608	(22,832,805)
Proceeds from sale of plant and equipment	19,414	41,250
Acquisition of property, plant and equipment	(626,854)	(1,040,910)
Acquisition of investment properties	-	(23,320)
Acquisition of intangibles	(7,558)	(21,234)
Net cash provided by/(used in) investing activities	<u>13,170,610</u>	<u>(23,877,019)</u>
Cash flows from financing activities:		
Issuance of subordinated debt	-	-
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net increase/(decrease) in cash	702,094	(1,819,166)
Cash at beginning of year	54,069,967	55,889,133
Cash at end of year	7 <u><u>54,772,061</u></u>	<u><u>54,069,967</u></u>

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 2016

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 30 August 2016.

(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).

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 2016

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 members 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 members 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 members 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 members 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 2016

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 members against the prospect that some borrowers will experience loan repayment difficulties. The reserve is based on estimation of potential risk in the loan portfolio based upon the level of security taken as collateral and the nature of the loan.

The credit asset impairment reserve is not eligible for recognition as a provision to be offset against the gross balance of loans. The provision for general credit risk in the loan portfolio is recognised as the credit asset impairment reserve.

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 2016

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 2016

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 members and financial institutions

Members' 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.

Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Statement of significant accounting policies (continued)

(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.

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.

Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Statement of significant accounting policies (continued)

(q) Investments in jointly controlled associates

A jointly controlled entity is a corporation, partnership or other entity which each participant holds an interest and joint control, but neither unilaterally controls the entity. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses.

Interest in jointly controlled entities are accounted for using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the jointly controlled entity.

The Company's share of a jointly controlled entity's post-acquisition profits or losses is recognised in the profit or loss, and its share of post acquisition movements in reserves is recognised in the reserves.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions or dividends received from jointly controlled entities are recognised in the statement of financial position, reducing the carrying amount of the investment.

The reporting dates of the jointly controlled entities and the Company are identical and the jointly controlled entities accounting policies conform to those used by the Company.

Impairment

Goodwill relating to a jointly controlled entity is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Company determines whether it is necessary to recognise any additional impairment loss with respect to the Company's net investment in the jointly controlled entity.

The Company assesses at each balance date whether there is objective evidence that an investment is impaired.

(r) 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.

Notes to the Financial Statements

For the Year Ended 30 June 2016

1 Statement of significant accounting policies (continued)

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

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.

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.

Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Statement of significant accounting policies (continued)

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

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.

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.

(s) 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.

(t) 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.

Notes to the Financial Statements
For the Year Ended 30 June 2016

1 Statement of significant accounting policies (continued)

(t) Fair value measurement (continued)

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.

(u) New standards applicable for the current year

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

2 Changes in accounting policies

Certain accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 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 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition on financial instruments from AASB 139.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company does not expect the changes to AASB 9 to have a material effect on the financial statements other than the move to an expected loss model for impairment which may result in increases to provisions.

AASB 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces most of the existing standards and interpretations relating to revenue recognition including AASB 118 'Revenue'. The standard shifts the focus from the transaction level to a contract-based approach. Recognition is determined based on what the customer expects to be entitled to, while measurement encompasses estimation by the Company of the amount expected to be entitled for performing under the contract.

It is effective for annual reporting periods commencing 1 January 2018, with early adoption permitted. The Company does not expect the changes to revenue recognition to have a material affect on the financial statements when AASB 15 is first adopted.

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. AASB 16 requires all leases to be accounted for 'on-balance sheet' by lessees, other than short term and low value asset leases, 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.

The Company is yet to undertake a detailed assessment of AASB 16 however, based on preliminary assessments, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted since existing operating leases are minimal and expected to remain so. The Company's preliminary assessment does indicate that the likely impact on the transactions and balances recognised will be an increase in property, plant and equipment and a corresponding increase in liabilities.

Notes to the Financial Statements
For the Year Ended 30 June 2016

2016	2015
\$	\$

3 Interest revenue and expense

Interest revenue

Financial assets at amortised cost

Loans to members	27,004,764	28,520,783
Placements with other financial institutions	2,647,554	2,579,744
Cash (bank accounts and at call deposits)	1,187,521	1,577,591
	<u>30,839,839</u>	<u>32,678,118</u>

Interest expense

Deposits	14,463,388	16,537,087
Subordinated debt	245,984	256,205
	<u>14,709,372</u>	<u>16,793,292</u>

<i>Net interest income</i>	<u>16,130,467</u>	<u>15,884,826</u>
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4 Non interest income

Fees & Commission

Transaction fees	1,167,302	1,161,714
Loan fees (exc fees deemed to be integral to effective interest rate)	434,866	451,975
Insurance and other commission	380,547	329,804
<i>Total fee and commission income</i>	<u>1,982,715</u>	<u>1,943,493</u>

Other income

Rental income	286,420	284,606
Gain on disposal of property, plant and equipment	18	7,933
Bad debts recovered	11,314	8,666
Other revenue	39,196	51,971
<i>Total other income</i>	<u>336,948</u>	<u>353,176</u>

Total non interest income	<u>2,319,663</u>	<u>2,296,669</u>
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Notes to the Financial Statements
For the Year Ended 30 June 2016

2016	2015
\$	\$

5 Specific expenses

Depreciation and amortisation

Plant and equipment	494,785	474,660
Owner-occupied buildings	62,313	58,110
Leasehold improvements	57,902	56,642
Amortisation of capitalised software	185,976	100,398
	<u>800,976</u>	<u>689,810</u>

Impairment expenses

Impairment expense for loans to members	(4,119)	95,635
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Rental expense on operating leases

Minimum lease payments	213,588	215,545
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Non-lending losses

Fraud from card transactions	15,798	12,565
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APRA/ASIC

Supervision and filing fees	45,521	43,684
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Repairs to investment properties

Repairs and maintenance expenses	8,770	7,585
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6 Income tax expense

The components of tax expense comprise:

Current tax payable	1,438,995	1,558,399
Originating and reversing temporary differences	(66,221)	(14,251)
Adjustments in relation to prior periods	-	470
	<u>1,372,774</u>	<u>1,544,618</u>

Reconciliation of income tax expense

Prima facie tax payable on profit before income tax at 30% (2015 - 30%)	1,376,856	1,548,574
Tax effect of:		
- non-deductible expenses	2,055	1,711
- other timing differences	(6,137)	(6,137)
- Adjustment in relation to prior periods	-	470
	<u>1,372,774</u>	<u>1,544,618</u>

Notes to the Financial Statements
For the Year Ended 30 June 2016

2016	2015
\$	\$

7 Cash

Cash on hand	1,218,300	1,209,757
Cash at bank	53,553,761	52,860,210
	<u>54,772,061</u>	<u>54,069,967</u>

8 Receivables

Trade and other receivables	107,121	121,567
Accrued interest receivable	447,956	432,891
	<u>555,077</u>	<u>554,458</u>

9 Placements with other financial institutions

Deposits with banks	17,271,475	30,115,511
Deposits with other financial institutions	21,981,598	25,000,000
Bank bills and negotiable certificates of deposit	38,891,002	36,814,172
	<u>78,144,075</u>	<u>91,929,683</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	19,271,475	39,065,307
Authorised Deposit-taking Institutions rated A-2	41,872,846	24,878,641
Authorised Deposit-taking Institutions rated A-3 & below	3,999,754	2,985,735
Authorised Deposit-taking Institutions unrated	13,000,000	25,000,000
	<u>78,144,075</u>	<u>91,929,683</u>

10 Loans to members

Overdrafts and revolving credit facilities	5,506,917	5,689,671
Personal loans	10,737,739	11,108,632
Commercial loans	17,113,801	13,376,597
Residential loans	549,484,524	516,590,176
	<u>582,842,981</u>	<u>546,765,076</u>
Provision for impairment	(41,813)	(119,662)
	<u>582,801,168</u>	<u>546,645,414</u>

Notes to the Financial Statements
For the Year Ended 30 June 2016

2016	2015
\$	\$

10 Loans to members (continued)

(a) Concentration of risk

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

- Tasmania	573,709,834	542,343,783
- Other Australian states	9,133,147	4,421,293
	<u>582,842,981</u>	<u>546,765,076</u>

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

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

(b) 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 mortgage security on a portfolio basis is as follows:

LVR less than 80%	361,432,915	329,631,055
LVR more than 80% but mortgage insured	161,625,993	157,649,460
LVR more than 80% and not mortgage insured	41,815,939	40,860,972
	<u>564,874,847</u>	<u>528,141,487</u>

Wholly or partly secured over non-residential assets

Commercial property	7,361,057	7,352,391
Personal loans	8,162,245	8,806,199
Credit cards	2,444,832	2,464,999
	<u>17,968,134</u>	<u>18,623,589</u>
Total	<u>582,842,981</u>	<u>546,765,076</u>

Personal loans are either wholly unsecured or partly secured by assets such as motor vehicles. Credit cards are wholly unsecured.

(c) Provision for impairment

Collective provision	31,813	119,662
Specific provision	10,000	-
	<u>41,813</u>	<u>119,662</u>

(d) Provision for impairment - collective provision

Opening balance	119,662	98,684
Impaired loans previously provided for written off during the year	(11,759)	(68,439)
Impaired loans (reduced)/provided for during the year	(66,090)	89,417
Closing balance	<u>41,813</u>	<u>119,662</u>

(e) Impairment expense

Impaired loans (reduced)/provided for during the year	(66,090)	89,417
Bad debts recognised directly as an expense	61,971	6,218
	<u>(4,119)</u>	<u>95,635</u>

Notes to the Financial Statements
For the Year Ended 30 June 2016

10 Loans to members (continued)

(f) 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.

2016

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	-	19,880	-	12,318	32,198	(20,271)	11,927
Housing loans	-	131,267	-	-	131,267	(16,563)	114,704
Commercial loans	-	-	-	-	-	-	-
Overdrafts & credit cards	8,108	109	1,654	-	9,871	(4,979)	4,892
Overdrawn savings accounts	-	-	-	-	-	-	-
	8,108	151,256	1,654	12,318	173,336	(41,813)	131,523

Past due not impaired

Personal loans	9,812	-	-	25,777	35,589	-	35,589
Overdraft	19,726	-	-	-	19,726	-	19,726
Commercial loans	-	-	-	-	-	-	-
Residential loans	1,177,245	-	295,247	-	1,472,492	-	1,472,492
	1,206,783	-	295,247	25,777	1,527,807	-	1,527,807

Total past due & impaired loans

	1,214,891	151,256	296,901	38,095	1,701,143	(41,813)	1,659,330
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2015

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	39,407	5,276	19,145	-	63,828	(17,426)	46,402
Housing loans	-	124,653	97,124	286,478	508,255	(78,097)	430,158
Commercial loans	-	-	-	-	-	-	-
Overdrafts & credit cards	53,099	7,572	12,798	1,142	74,611	(23,758)	50,853
Overdrawn savings accounts	7,373	121	40	-	7,534	(381)	7,153
	99,879	137,622	129,107	287,620	654,228	(119,662)	534,566

Past due not impaired

Personal loans	-	-	-	-	-	-	-
Overdraft	-	-	-	-	-	-	-
Commercial loans	-	-	255,132	-	255,132	-	255,132
Residential loans	3,214,672	125,718	177,004	219,740	3,737,134	-	3,737,134
	3,214,672	125,718	432,136	219,740	3,992,266	-	3,992,266

Total past due & impaired loans

	3,314,551	263,340	561,243	507,360	4,646,494	(119,662)	4,526,832
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Notes to the Financial Statements
For the Year Ended 30 June 2016

2016	2015
\$	\$

11 Investments

Total Investments

Investments in jointly controlled entities	10,000	10,000
Available for sale investments	96,146	96,146
	<u>106,146</u>	<u>106,146</u>

Investments in jointly controlled entities

Investment in B&Z JV Pty Limited	<u>10,000</u>	<u>10,000</u>
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B&E Limited holds the following percentage share investment in the jointly controlled entity:

- B&Z JV Pty Limited	50%	50%
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B&Z JV Pty Limited

Share of profit/(losses)

Operating profit/(loss) before income tax	-	-
Income tax attributable	-	-
Share of profit/(loss) after income tax	<u>-</u>	<u>-</u>

Carrying value of investment

Balance at the beginning of the financial year	10,000	10,000
Contribution paid	-	-
Distribution received	-	-
Share of net profit/(loss) for the financial year	-	-
Carrying value of investment at balance date	<u>10,000</u>	<u>10,000</u>

B&E Ltd ('B&E') entered into a share sale agreement with Frontier Wealth Management Pty Ltd ('Frontier') for the sale of 100% of B&E's ownership interest in B&Z JV Pty Ltd ('B&Z') as at 5th May 2016. As at 30th June 2016 the share sale agreement had not been completed as the agreed purchase price had not yet been received and two B&E directors on the board of B&Z had not yet resigned from their position. Effective 1st July 2016 the sale proceeds were received by B&E and on the 22nd July 2016 B&E directors and the company secretary resigned and B&E staff were removed as signatories on the bank account, accordingly at this time B&E have relinquished joint control of B&Z and the sale has been completed.

Available for sale investments

Shares in unlisted companies - at cost		
- Australian Settlements Limited	<u>96,146</u>	<u>96,146</u>

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	-	-
	<u>96,146</u>	<u>96,146</u>

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.

The financial reports of ASL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of ASL any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily. The net dividend return in 2016 was Nil. Management has determined that the cost value of \$1.00 per share is a reasonable approximation of fair value based on the likely value available on a sale. The Company is not intending to dispose of these shares.

Notes to the Financial Statements
For the Year Ended 30 June 2016

2016	2015
\$	\$

12 Property, Plant and equipment

Land and buildings

Freehold land

At fair value

Total freehold land

2,820,581 2,820,581

2,820,581 2,820,581

Buildings

At fair value

Accumulated depreciation

Total buildings

2,386,565 2,386,565

(120,423) (58,110)

2,266,142 2,328,455

Total Land and buildings

5,086,723 5,149,036

Plant and equipment

Plant and equipment

At cost

Accumulated depreciation

Total plant and equipment

4,227,503 3,922,393

(2,616,087) (2,165,770)

1,611,416 1,756,623

Leasehold improvements

At cost

Accumulated amortisation

Total leasehold improvements

567,926 567,926

(292,958) (235,056)

274,968 332,870

Capital works in progress

At cost

188,024 520,000

Total property, plant and equipment

7,161,131 7,758,529

(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 2014. The valuations were performed by:

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

Ian O'Shea A.A.P.I., B.Bus, Grad Dip Prop Val, CPV

Gavin Lipplegoes 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. The land and buildings were last revalued on 30 June 2014 based on independent assessments by a member of the Australian Property Institute. The Directors do not believe that 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 2016

12 Property, plant and equipment (continued)

(b) Movements in carrying amounts

Current year

	Land \$	Buildings \$	Leasehold imp. \$	Plant & Equipment \$	Work in progress \$	Total \$
Carrying amount at beginning of year	2,820,581	2,328,455	332,870	1,756,623	520,000	7,758,529
Additions	-	-	-	177,877	448,977	626,854
Transfers between property, plant & equipment	-	-	-	191,099	(191,099)	-
Transfers (to) from investment property	-	-	-	-	-	-
Transfers to intangibles	-	-	-	-	(589,854)	(589,854)
Revaluation decrement	-	-	-	-	-	-
Disposals	-	-	-	(19,398)	-	(19,398)
Depreciation and amortisation expense	-	(62,313)	(57,902)	(494,785)	-	(615,000)
Carrying amount at end of year	2,820,581	2,266,142	274,968	1,611,416	188,024	7,161,131

Prior year

	Land \$	Buildings \$	Leasehold imp. \$	Plant & Equipment \$	Work in progress \$	Total \$
Carrying amount at beginning of year	2,820,581	2,324,419	389,512	1,686,324	167,080	7,387,916
Additions	-	-	-	225,022	815,888	1,040,910
Transfers between property, plant & equipment	-	62,146	-	353,254	(415,400)	-
Transfers (to) from investment property	-	-	-	-	-	-
Transfers to intangibles	-	-	-	-	(47,568)	(47,568)
Revaluation decrement	-	-	-	-	-	-
Disposals	-	-	-	(33,317)	-	(33,317)
Depreciation and amortisation expense	-	(58,110)	(56,642)	(474,660)	-	(589,412)
Carrying amount at end of year	2,820,581	2,328,455	332,870	1,756,623	520,000	7,758,529

Notes to the Financial Statements
For the Year Ended 30 June 2016

2016	2015
\$	\$

13 Investment property

At fair value

Balance at beginning of year	3,060,095	3,036,775
Additions	-	23,320
Balance at end of year	<u>3,060,095</u>	<u>3,060,095</u>

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	1,689,203	1,093,440
Accumulated amortisation	<u>(1,198,009)</u>	<u>(1,013,682)</u>
	<u>491,194</u>	<u>79,758</u>

Movement in carrying amount

Balance at beginning of year	79,758	111,354
Additions	7,558	21,234
Transfer from work in progress (in property, plant & equipment)	589,854	47,568
Amortisation expense	<u>(185,976)</u>	<u>(100,398)</u>
Carrying amount at end of the year	<u>491,194</u>	<u>79,758</u>

Notes to the Financial Statements
For the Year Ended 30 June 2016

15 Deposits from other financial institutions

	2016 \$	2015 \$
Term deposits	45,150,000	44,527,728
Non-interest bearing term deposits	95,000	95,000
	<u>45,245,000</u>	<u>44,622,728</u>

16 Deposits from members

Call deposits	222,688,893	209,741,407
Term deposits	387,162,966	380,376,594
	<u>609,851,859</u>	<u>590,118,001</u>

Concentration of deposits

Tasmanian residents	591,704,771	574,815,960
Other	18,147,088	15,302,041
	<u>609,851,859</u>	<u>590,118,001</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	1,240,708	971,350
Accrued interest - deposits	3,537,870	4,143,437
	<u>4,778,578</u>	<u>5,114,787</u>

18 Employee benefits

Accrued employee entitlements	293,366	416,854
Annual leave	449,161	487,545
Long service leave	409,253	466,375
	<u>1,151,780</u>	<u>1,370,774</u>

Included in employee benefits is a non-current amount of \$248,413 (2015: \$358,226) relating to long service leave.

19 Long term borrowings

Subordinated debt:

Balance at the beginning of the year	3,000,000	3,000,000
	<u>3,000,000</u>	<u>3,000,000</u>

B&E Ltd 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.

Notes to the Financial Statements
For the Year Ended 30 June 2016

2016	2015
\$	\$

20 Tax**(a) Liabilities**

Current years tax payable

223,090	218,915
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Current year tax payable comprises:

Opening balance	218,915	46,940
Over/(under) statement in prior year	-	15,289
Less payments made in current year	(1,434,820)	(1,401,713)
Liability for income tax in current year	1,438,995	1,558,399
	<u>223,090</u>	<u>218,915</u>

Deferred tax liability comprises:

Broker commission	3,972	31,850
Other	-	90
	<u>3,972</u>	<u>31,940</u>

(b) Asset

Deferred tax assets comprise:

Provision for impairment	12,544	35,899
Accrued expenses not deductible until paid	102,154	92,601
Property, plant and equipment	116,686	35,978
Employee entitlements provisions	257,524	286,176
Capital losses carried forward	56,494	56,494
	<u>545,402</u>	<u>507,148</u>

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 2016

2016	2015
\$	\$

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	3,216,745	3,617,295
Non-cash flows in profit from ordinary activities		
Depreciation and amortisation	615,000	589,412
Amortisation of capitalised software	185,976	100,398
Loss on disposal of fixed assets	(18)	(7,933)
Impairment expense	(4,119)	95,635
Changes in assets and liabilities		
Trade and other receivables	(619)	114,954
Prepayments	(68,728)	11,234
Deferred tax	(66,222)	(29,070)
Employee entitlements	(218,994)	(64,104)
Trade and other payables	706,890	(405,954)
Accrued interest - deposits	(605,567)	(340,020)
Current tax payable	4,176	171,975
	<u>3,764,520</u>	<u>3,853,822</u>
Net increase in loans and advances	(36,151,634)	(5,887,840)
Net movement in deposits from other financial institutions	622,272	(13,491,012)
Net movement in member deposits	19,296,326	37,582,883
Net cash flow from operating activities	<u>(12,468,516)</u>	<u>22,057,853</u>

(b) Credit standby arrangements

An overdraft facility of \$1.5 million was available to the Company at the reporting date (2015: \$1.5 million). As at that date none of the overdraft facility was in use (2015: 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 2016

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. B&E 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.

The Company has undertaken the following strategies to minimise the risks arising from financial instruments.

(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 14.00% - 18.00%.

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 2016

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 five year financial plan. The plan includes planned growth, projected projects and financial projections for the next five 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 2016

2016	2015
\$	\$

24 Financial risk management (continued)

Capital adequacy ratio calculation

Tier 1 capital

Common equity tier 1 capital

Retained earnings	3,216,745	3,617,295
General reserve	56,384,779	52,838,321
Asset revaluation reserve	2,875,515	2,875,515
	<u>62,477,039</u>	<u>59,331,131</u>
Less prescribed deductions	(1,534,915)	(1,057,306)
Net tier 1 capital	<u>60,942,124</u>	<u>58,273,825</u>

Tier 2 capital

Credit asset impairment reserve	1,135,581	1,064,744
Subordinated debt	<u>1,800,000</u>	<u>2,100,000</u>
	<u>2,935,581</u>	<u>3,164,744</u>
Less prescribed deductions	-	-
Net tier 2 capital	<u>2,935,581</u>	<u>3,164,744</u>

Total capital	<u>63,877,705</u>	<u>61,438,569</u>
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The capital ratio as at the end of the financial year and over the past 5 years is as follows:

2016	2015	2014	2013	2012*
18.66%	19.06%	18.60%	18.09%	15.46%

* calculated in accordance with Basel II requirements

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 2016

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 B&E over different holding periods at a 99% confidence level.

2016

Holding Period	VaR at 99% confidence level	99% as a Proportion of Capital
1 Day	(121,686)	-0.19%
10 Days	(384,806)	-0.60%
20 Days	(544,198)	-0.85%
1 Year	(1,885,158)	-2.95%

2015

Holding Period	VaR at 99% confidence level	99% as a Proportion of Capital
1 Day	(148,578)	-0.24%
10 Days	(469,846)	-0.76%
20 Days	(664,462)	-1.08%
1 Year	(2,301,765)	-3.74%

Using the above parameters, at 30 June 2016 the VaR was 0.19% (30 June 2015: 0.24%) 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 2016

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 2016

24 Financial risk management (continued)

(d) Credit risk (continued)

Impairment assessment

The main considerations for loan impairment assessment are as follows:

- whether any payments of principal or interest are overdue;
- whether there are any known difficulties in the cash flow of counterparties; or
- 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 members.

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

Maximum exposure to credit risk

	2016 \$	2015 \$
Loans and receivables (amortised cost)	582,842,981	546,765,076
Placements with other financial institutions	78,144,075	91,929,683
Trade and other receivables	555,077	554,458
	<u>661,542,133</u>	<u>639,249,217</u>
Loans approved not yet funded	28,877,882	20,945,755
Undrawn overdraft and revolving credit limits	1,846,197	1,643,993
Undrawn credit card limits	4,805,518	4,562,051
Redraw facilities on term loans	37,270,287	34,112,831
Undrawn line of credit	1,633,085	1,800,151
	<u>74,432,969</u>	<u>63,064,781</u>
	<u>735,975,102</u>	<u>702,313,998</u>

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

Notes to the Financial Statements

For the Year Ended 30 June 2016

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 12% 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 2016 was 18.63% (2015: 20.99%). The MLH ratio as at 30 June 2016 was 13.47% (2015: 13.10%).

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 2016

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.

	Carrying amount \$	Contractual cash flows \$	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Later than 5 years \$	No maturity \$
2016								
Financial liabilities								
Call deposits	222,688,893	222,688,893	222,688,893	-	-	-	-	-
Term deposits	435,945,836	436,272,514	98,172,009	156,672,901	168,730,187	12,602,417	-	95,000
Trade and other payables	1,240,708	1,240,708	1,240,708	-	-	-	-	-
Long term borrowings	3,000,000	3,000,000	-	-	-	-	3,000,000	-
On balance sheet	662,875,437	663,202,115	322,101,610	156,672,901	168,730,187	12,602,417	3,000,000	95,000
Undrawn credit commitments	74,432,969	74,432,969	74,432,969	-	-	-	-	-
Total financial liabilities	737,308,406	737,635,084	396,534,579	156,672,901	168,730,187	12,602,417	3,000,000	95,000
Financial assets								
Cash	54,772,061	54,772,061	54,772,061	-	-	-	-	-
Trade and other receivables	107,121	107,121	107,121	-	-	-	-	-
Placements with other financial institutions	78,592,031	80,823,442	14,059,110	24,117,359	15,221,866	27,425,107	-	-
Loans and advances	582,801,168	917,711,378	3,916,678	7,804,658	38,794,891	176,617,278	690,577,873	-
Other investments	106,146	106,146	-	-	-	-	-	106,146
Total financial assets	716,378,527	1,053,520,148	72,854,970	31,922,017	54,016,757	204,042,385	690,577,873	106,146

Notes to the Financial Statements
For the Year Ended 30 June 2016

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 \$
2015								
Financial liabilities								
Call deposits	209,741,407	209,741,407	209,741,407	-	-	-	-	-
Term deposits	429,142,759	429,521,603	81,906,023	160,588,320	176,794,125	10,138,135	-	95,000
Trade and other payables	971,350	971,350	971,350	-	-	-	-	-
Long term borrowings	3,000,000	3,000,000	-	-	-	-	3,000,000	-
On balance sheet	642,855,516	643,234,360	292,618,780	160,588,320	176,794,125	10,138,135	3,000,000	95,000
Undrawn credit commitments	63,064,781	63,064,781	63,064,781	-	-	-	-	-
Total financial liabilities	705,920,297	706,299,141	355,683,561	160,588,320	176,794,125	10,138,135	3,000,000	95,000
Financial assets								
Cash	54,069,967	54,069,967	54,069,967	-	-	-	-	-
Trade and other receivables	121,567	121,567	121,567	-	-	-	-	-
Placements with other financial institutions	92,362,574	93,640,102	28,647,269	39,617,986	11,095,205	14,279,642	-	-
Loans and advances	546,645,414	886,863,353	3,828,511	7,640,195	34,160,734	172,436,989	668,796,924	-
Other investments	106,146	106,146	-	-	-	-	-	106,146
Total financial assets	693,305,668	1,034,801,136	86,667,315	47,258,181	45,255,939	186,716,631	668,796,924	106,146

Notes to the Financial Statements
For the Year Ended 30 June 2016

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 2015 and 2016 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 instruments 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 \$
2016								
Financial liabilities								
Call deposits	0.56%	222,688,893	222,688,893	-	-	-	-	-
Term deposits	2.83%	435,945,836	98,860,919	157,581,934	167,183,867	12,224,116	-	95,000
Trade and other payables	N/A	1,240,708	-	-	-	-	-	1,240,708
Long term borrowings	8.22%	3,000,000	-	-	-	-	3,000,000	-
		662,875,437	321,549,812	157,581,934	167,183,867	12,224,116	3,000,000	1,335,708
Financial assets								
Cash	1.69%	54,772,061	54,772,061	-	-	-	-	-
Trade and other receivables	N/A	107,121	-	-	-	-	-	107,121
Placements with other financial institutions	2.93%	78,592,031	14,025,666	24,064,283	15,085,740	25,416,342	-	-
Loans and advances	4.53%	582,801,168	525,866,919	4,708,515	14,111,575	38,114,159	-	-
Other investments	N/A	106,146	-	-	-	-	-	106,146
		716,378,527	594,664,646	28,772,798	29,197,315	63,530,501	-	213,267

Notes to the Financial Statements
For the Year Ended 30 June 2016

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 \$
2015								
Financial liabilities								
Call deposits	0.63%	209,741,407	209,741,407	-	-	-	-	-
Term deposits	3.15%	429,142,759	82,502,681	161,743,791	175,030,878	9,770,409	-	95,000
Trade and other payables	N/A	971,350	-	-	-	-	-	971,350
Long Term Borrowings	8.16%	3,000,000	-	-	-	-	3,000,000	-
		642,855,516	292,244,088	161,743,791	175,030,878	9,770,409	3,000,000	1,066,350
Financial assets								
Cash	2.18%	54,069,967	54,069,967	-	-	-	-	-
Trade and other receivables	N/A	121,567	-	-	-	-	-	121,567
Placements with other financial institutions	2.81%	92,362,574	28,687,073	39,588,551	11,025,734	13,061,216	-	-
Loans and advances	4.90%	546,645,414	468,455,613	10,862,166	29,751,335	37,576,300	-	-
Other investments	N/A	106,146	-	-	-	-	-	106,146
		693,305,668	551,212,653	50,450,717	40,777,069	50,637,516	-	227,713

Notes to the Financial Statements
For the Year Ended 30 June 2016

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 2016

2016	2015
\$	\$

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)	-	22,828
- Intangibles (not later than 1 year)	180,894	586,121
	<u>180,894</u>	<u>608,949</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	148,244	162,020
- between 12 months and 2 years	58,172	139,186
- between 2 years and 5 years	97,948	130,641
- greater than 5 years	-	25,724
	<u>304,364</u>	<u>457,571</u>

On the 26th February 2016 the Company entered into an agreement for the rental of printers. The term of the agreement is for 60 months with a rental fee of \$1,200 per month (total contract value \$72,000). As at 30 June 2016 a start date for this agreement has not yet been reached and accordingly the commitment is not included in the above table

Operating lease receivables

Operating leases receivables relate to the investment property owned by the Company with lease terms of between 3 to 10 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 sent out in note 4 and 5 respectively.

Receivable - minimum lease payments

- within 12 months	183,627	268,263
- between 12 months and 2 years	112,326	182,364
- between 2 years and 5 years	51,516	165,368
- greater than 5 years	-	-
	<u>347,469</u>	<u>615,995</u>

Notes to the Financial Statements

For the Year Ended 30 June 2016

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, Advisor to the Board and members of the executive management listed below, who are responsible for the day to day financial and operational management of the Company.

Directors

Stephen Brown (Chairman)
Lyn Cox
Mark Nugent
Keryn Nylander
Mac Russell
Scott Newton

Advisor to the Board

Sally Darke

Executives

Paul Ranson	Chief Executive Officer
Gerald White	Chief Financial Officer and Company Secretary
Susie Russell	Chief Operations Officer
Kate Dean	Chief Sales and Marketing 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:

	2016 \$	2015 \$
Short term employee benefits		
Salaries and fees	1,122,045	1,043,874
Net increase in annual leave provision	5,035	18,136
Non-cash benefits	36,414	45,091
Post Employment benefits		
Superannuation contributions	192,382	175,064
Other long term benefits		
Long service leave taken	33,816	20,776
Increase/(decrease) in long service leave provision	(23,632)	(11,310)
	<u>1,366,060</u>	<u>1,291,631</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 2016

2016	2015
\$	\$

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	1,185,597	304,547
Interest revenue recognised	82,388	65,135
Loan repayments received during the year	185,382	414,415
Balance of loans outstanding at year end	2,574,415	1,478,385

The Company's policy for lending to Directors is that all loans are approved on the same terms and conditions which applied to members of each class of loan. Key management personnel who are not Directors are entitled to the benefits package offered through B&E's Reward Plus 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	1,972,393	1,801,442
Interest expense recognised	48,978	58,815

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 CEO and a director of Knight Frank Tasmania which is a related company of Opteon (Tasmania) Pty Ltd. In addition, Scott Newton is a director and shareholder of the ultimate parent company of Knight Frank Tasmania and Opteon(Tasmania) Pty Ltd, however does not control the ultimate parent company. During the year valuation services have been provided by Opteon, in addition the Company has leased car parking spaces from Knight Frank Tasmania. 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	143,950	112,903
Lease of car parking	8,333	3,314

Notes to the Financial Statements
For the Year Ended 30 June 2016

26 Related party disclosures (continued)

(e) Other transactions with related parties (continued)

During the financial year ended 30 June 2013, the Company became a 50% joint venture partner in B&Z JV Pty Ltd with Frontier Wealth Pty Ltd holding the remaining 50%. the Company provided \$10,000 in seed capital as part of this acquisition. This amount is included in "Investments" on the statement of financial position (refer also note 11)

B&E Ltd further issued a loan to B&Z JV Pty Ltd which has a balance of \$396,241 as at 30 June 2016 from a total approved facility of \$400,000 (refer also note 11).

2016	2015
\$	\$

27 Auditors' remuneration

Amounts received or due and receivable by the external auditor (or related entity) of B&E Ltd (excluding GST) for:

Audit of the financial statements of the company	71,200	67,445
Other regulatory assurance services	12,600	12,395
	<u>83,800</u>	<u>79,840</u>

Other transactions between the external auditor (or related entity) and B&E Ltd (excluding GST):

Mortgage broking commissions paid to related entity of external auditor	5,114	5,139
Lease premise rental income received from related entity of external auditor	29,081	30,922

Further, Pinnacle (part of the Crowe Horwath Group), leased premises from B&E Ltd 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 suppliers.

Notes to the Financial Statements
For the Year Ended 30 June 2016

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	
		2016	2015	2016	2015
		\$	\$	\$	\$
Financial Liabilities					
Call deposits	16	222,688,893	209,741,407	222,688,893	209,741,407
Term deposits	15 & 16	435,945,836	429,142,759	433,524,620	426,572,578
Trade & other payables	17	1,240,708	971,350	1,240,708	971,350
Long term borrowings	19	3,000,000	3,000,000	3,000,000	3,000,000
Total Financial Liabilities		662,875,437	642,855,516	660,454,221	640,285,335
Financial Assets					
Cash	7	54,772,061	54,069,967	54,772,061	54,069,967
Trade & other receivables	8	107,121	121,567	107,121	121,567
Placements with other financial institutions	9	78,592,031	92,362,574	78,601,951	92,380,918
Loans & advances	10	582,801,168	546,645,414	586,559,019	550,583,384
Other investments	11	106,146	106,146	106,146	106,146
Total Financial Assets		716,378,527	693,305,668	720,146,298	697,261,982

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. Interest payable is included as part of Term Deposits.

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. Interest receivable is included as part of Placements with other Financial Institutions.

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 member 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 2016

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 2016				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$	
Assets measured at fair value					
Investment property	13	-	3,060,095	-	3,060,095
Land & buildings	12	-	5,086,723	-	5,086,723
Total assets measured at fair value		-	8,146,818	-	8,146,818
Assets for which fair values are disclosed					
Cash	-	54,772,061	-	-	54,772,061
Trade & other receivables	-	-	107,121	-	107,121
Placements with other financial institutions	-	78,601,951	-	-	78,601,951
Loans & advances	-	-	586,559,019	-	586,559,019
Other investments	-	-	106,146	-	106,146
Total assets for which fair value is disclosed	-	133,374,012	586,772,286	-	720,146,298
Liabilities for which fair values are disclosed					
Call deposits	-	222,688,893	-	-	222,688,893
Term deposits	-	433,524,620	-	-	433,524,620
Trade & other payables	-	-	1,240,708	-	1,240,708
Subordinated debt	-	3,000,000	-	-	3,000,000
Total liabilities for which fair values are disclosed	-	659,213,513	1,240,708	-	660,454,221

There have been no transfers between levels during the year.

Notes	Fair Value as at 30 June 2015				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$	
Assets measured at fair value					
Investment property	13	-	3,060,095	-	3,060,095
Land & buildings	12	-	5,149,036	-	5,149,036
Total assets measured at fair value		-	8,209,131	-	8,209,131
Assets for which fair values are disclosed					
Cash		-	54,069,967	-	54,069,967
Trade & other receivables		-	-	121,567	121,567
Placements with other financial institutions		-	92,380,918	-	92,380,918
Loans & advances		-	-	550,583,384	550,583,384
Other investments		-	-	106,146	106,146
Total assets for which fair value is disclosed		-	146,450,885	550,811,097	697,261,982
Liabilities for which fair values are disclosed					
Call deposits		-	209,741,407	-	209,741,407
Term deposits		-	426,572,578	-	426,572,578
Trade & other payables		-	-	971,350	971,350
Subordinated debt		-	3,000,000	-	3,000,000
Total liabilities for which fair values are disclosed		-	639,313,985	971,350	640,285,335

Notes to the Financial Statements

For the Year Ended 30 June 2016

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 2014	3,036,775	5,145,000	8,181,775
Additions	23,320	62,146	85,466
Losses recognised in other comprehensive income	-	-	-
Losses recognised in other comprehensive income	-	-	-
Depreciation expense	-	(58,110)	(58,110)
Balance at 30 June 2015	3,060,095	5,149,036	8,209,131
Additions	-	-	-
Losses recognised in other comprehensive income	-	-	-
Revaluation decrement through profit and loss	-	-	-
Depreciation expense	-	(62,313)	(62,313)
Balance as at 30 June 2016	3,060,095	5,086,723	8,146,818