Series 2018-1 REDS Trust

ABN 70 932 250 880

Annual Financial Report for the year ended - 31 August 2022

Contents	**Page**

For the purposes of this report, the 'Trust Manager' refers to B.Q.L. Management Pty Ltd in its capacity as Manager of Series 2018-1 REDS Trust (the Trust). The Trust Manager has prepared this general purpose financial report.

The Trust Manager presents its report together with the financial statements of the Trust for the financial year ended 31 August 2022.

Principal activities

The Trust was established with the purpose of carrying on a business to provide funds for the purchase of investments being mortgage loans. The Trust funded the purchase of mortgage loans through the issue of notes which represent debt of the Trust. The Trust is a for-profit entity for the purpose of preparing the financial statements.

There have been no significant changes in the nature of the principal activities of the Trust during the year.

Operating and financial review

The operating loss after income tax for the financial year ended 31 August 2022 was $2,431,000 (2021: $3,699,000). As the income unitholders are presently entitled to all taxable profits, no income tax is payable by the Trust.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since the end of the financial year and up until the date of this report, that has significantly affected, or may significantly affect the Trust's operations, the results of those operations, or the Trust's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Trust and the expected results of operations have not been included in this report because the Trust Manager believes it would be likely to result in unreasonable prejudice to the Trust.

Environmental regulation

The Trust's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Rounding

Amounts in this financial report have been rounded to the nearest thousand Australian dollars, unless otherwise stated.

Series 2018-1 REDS Trust
Statement by Trust Manager
31 August 2022

In the opinion of the Trust Manager:

(a) the financial report set out on pages 4 to 23 is drawn up so as to present fairly in all material respects in accordance with notes 2 and 3, the results and cash flows for the year ended 31 August 2022, and the state of affairs at 31 August 2022 of the Series 2018-1 REDS Trust.

(b) the Trust has operated during the year ended 31 August 2022 in accordance with the provisions of the Master Trust Deed dated 10 February 1998 (as amended) and the Series 2018-1 REDS Trust Series Supplement dated 28 May 2018.

(c) at the date of this statement, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Dated in Brisbane this 23rd day of December 2022.

Signed on behalf of the Manager, B.Q.L. Management Pty Ltd,

Racheal Kellaway
Director of the Manager

Series 2018-1 REDS Trust
Trustee's report
31 August 2022

The financial statements for the financial year ended 31 August 2022 have been prepared by the Trust Manager, B.Q.L. Management Pty Ltd, as required by the Master Trust Deed dated 10 February 1998 (as amended)..

The auditors of the Trust, PricewaterhouseCoopers, who have been appointed by the Trust Manager in accordance with the Master Trust Deed, have conducted an audit of the financial statements.

Based on our ongoing program of monitoring the Trust, we believe that:

(a) the Trust has been conducted in accordance with the Master Trust Deed dated 10 February 1998 (as amended) and the Series 2018-1 REDS Trust Series Supplement dated 28 May 2018.

(b) The Financial Report has been appropriately prepared and contains all relevant and required disclosures.

In making this statement, the Trustee has relied upon information, representations and warranties provided by the Trust Manager.

We are not aware of any material matters or significant changes in the state of affairs of the Trust occurring up to the date of this report that require disclosure in the financial statements and the notes thereto that have not already been disclosed.

Signed for and on behalf of
Perpetual Trustee Company Limited

Nathan Gale
Senior Client Service Manager

Dated in Sydney this 23rd day of December 2022.

Series 2018-1 REDS Trust
Statement of profit or loss and other comprehensive income
For the year ended 31 August 2022

	Note	**2022 $'000**	2021 $'000
Transactions with ultimate parent entity			
Interest income		**8,784**	10,009
Interest expense		**(5,475)**	(5,982)
Net Interest Income		**3,309**	**4,027**
Other income		**246**	344
Total income		**3,555**	4,371
Operating expenses	5	**(1,124)**	(672)
Operating profit before income tax		**2,431**	3,699
Income tax expense		**-**	-
Operating profit after income tax		**2,431**	3,699
(Profit)/loss attributable to unitholders		**(2,431)**	(3,699)
Net profit and total comprehensive income for the year		**-**	-

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

Series 2018-1 REDS Trust
Statement of financial position
As at 31 August 2022

	Note	**2022 $'000**	2021 $'000
Assets			
Cash and cash equivalents	12(a)	**9,970**	17,094
Receivables	6	**635**	1,055
Financial assets	7	**296,266**	398,218
Total assets		**306,871**	416,367
Liabilities			
Payables	8	**1,588**	1,624
Interest bearing liabilities	9	**305,484**	415,015
Total liabilities (excluding net assets attributable to unitholders)		**307,072**	416,639
Represented by:			
Units on issue	10	**-**	-
Net liabilities attributable to unit holders	11	**(201)**	(272)
Total unitholders' funds		**(201)**	(272)

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

Series 2018-1 REDS Trust
Statement of changes in unitholders' funds
As at 31 August 2022

	Units on Issue $'000	Net liabilities attributable to unitholders $'000	Total $'000
Balance at 31 August 2020	-	(1,180)	(1,180)
Profit / (loss) attributable to unitholder		3,699	3,699
Distributions during the period	-	(2,791)	(2,791)
Balance at 31 August 2021	-	(272)	(272)
Profit / (loss) attributable to unitholder		2,431	2,431
Distributions during the period	-	(2,360)	(2,360)
Balance at 31 August 2022	**-**	**(201)**	**(201)**

The statement of changes in unitholders' funds should be read in conjunction with the accompanying notes.

Series 2018-1 REDS Trust
Statement of cash flows
For the year ended 31 August 2022

	Note	**2022 $'000**	2021 $'000
Cash flows from operating activities			
Interest and fees received		**8,758**	10,271
Interest and fees paid		**(6,508)**	(7,663)
Net cash inflow from operating activities	12(b)	**2,250**	2,608
Cash flows from investing activities			
Principal repayment of mortgage loans		**102,440**	129,336
Net cash inflow from investing activities		**102,440**	129,336
Cash flows from financing activities			
Payments to noteholders		**(109,532)**	(129,296)
Distribution paid to income unit holder		**(2,282)**	(3,028)
Net cash outflow from financing activities		**(111,814)**	(132,324)
Net decrease in cash and cash equivalents		**(7,124)**	(380)
Cash and cash equivalents at the beginning of the financial year		**17,094**	17,474
Cash and cash equivalents at the end of the financial year	12(a)	**9,970**	17,094

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

Note 1. Reporting entity

The Series 2018-1 REDS Trust was established by the Master Trust Deed dated 10 February 1998 (as amended) between the Manager (B.Q.L. Management Pty Ltd) and the Trustee (Perpetual Trustee Company Limited) and the Series 2018-1 REDS Trust Series Supplement dated 28 May 2018 between the Seller and Servicer (Bank of Queensland Limited – “the Bank”), the Manager (B.Q.L. Management Pty Ltd) and the Trustee (Perpetual Trustee Company Limited).

The Trust was established with the purpose of carrying on a business to provide funds for the purchase of investments being mortgage loans. The Trust funded the purchase of mortgage loans through the issue of Class A1, Class A2, Class AB, Class B, Class C, Class D and Class E notes which represent debts of the Trust. The Trust is a for-profit entity for the purpose of preparing the financial statements.

The Trust is domiciled in Australia. The registered office of the Manager, B.Q.L. Management Pty Ltd, is Level 6, BOQ Village,100 Skyring Terrace, Newstead, Queensland, 4006. The ultimate parent entity of the Manager and the Trust is the Bank of Queensland Limited.

Note 2. Basis of preparation

Statement of compliance

The Trust is a for-profit entity for the purpose of preparing the financial statements and the financial report of the Trust has been drawn up to satisfy the requirements of the Master Trust Deed.

The Trust in the current year, has prepared general purpose financial statements. The Trust has adopted AASB 1 First Time Adoption of Australian Accounting Standards (**AASB 1**) as at 1 September 2020, as the Trust was previously reporting under a ‘special purpose’ financial reporting framework in Australia.

The general purpose financial report has been prepared in accordance with Australian Accounting Standards (**AAS**) and Interpretations as issued by the Australian Accounting Standards Board.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial report also complies with International Financial Reporting Standards (**IFRSs**) as issued by the International Accounting Standards Board (**IASB**).

The financial report was authorised for issue by the Manager on 23 December 2022.

Basis of measurement

The financial report has been prepared on the historical cost basis except for certain assets and liabilities as described in the accounting policies below, if applicable.

Note 2. Basis of preparation (continued)

Balance sheet presentation
Assets and liabilities have been presented in order of liquidity on the face of the balance sheet.

Functional and presentational currency
The financial report is presented in Australian dollars, which is the Trust's functional currency.

Accounting estimates and judgements
The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Those areas which involve significant estimation uncertainty and critical judgements in applying accounting policies and have the most effect on the amounts recognised in the financial report are listed below along with the relevant note where the Company's policy is described:

- Note 3(e) and Note 6: Financial Assets - Expected Credit Losses (**ECL**)

Note 3. Significant accounting policies

Consistency of accounting policies
The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Revenue recognition

Interest revenue
Interest income is recognised using effective interest rate on the financial asset. The effective interest rate is the rate that discounts estimated future receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Trust that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts. Transaction costs include mortgage loan acquisition costs such as commissions paid to intermediaries.

(b) Income and expenses

Income and expenses are brought to account on an accruals basis. The Manager and Trustee are entitled under the Master Trust Deed (as amended), to be reimbursed for certain expenses incurred in administering the Trust. The basis on which the expenses are reimbursed is defined in the Series Supplement. The amount reimbursed is disclosed in the statement of profit or loss and other comprehensive income and was calculated in accordance with the Series Supplement.

(c) Income tax

Under current legislation the Trust is not subject to income tax as the taxable income, including the assessable realised capital gains, is distributed in full to the unit holder. The Trust fully distributes its distributable income, calculated in accordance with the Master Trust Deed (as amended) and Series Supplements and applicable taxation legislation, to the unitholders who are presently entitled to the income.

Note 3. Significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents include deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash at the Trust Manager's option and are subject to insignificant risk of changes in value.

(e) Financial assets

Mortgage Loans
The mortgage loans are recognised at fair value at acquisition date plus transaction costs that are directly attributable to the loans. Mortgage loans are subsequently measured at amortised cost using the effective interest method less any impairment loss. Mortgage loans are mortgage insured loans secured by first registered mortgages over residential properties.

Past-due loans
Past-due loans are loans which are over 90 days in arrears. Interest on these loans continue to be taken to income. Days in arrears are calculated for each loan in accordance with Clause 1.1 of the Series Supplement as follows:

$$\frac{\text{Principal balance of loan less Scheduled balance of loan}}{\text{Monthly principal and interest repayment due}} \times 30$$

Bad debts are written off when identified and are recognised as expenses in the statement of profit or loss and other comprehensive income.

Loans and receivables – expected credit loss
The Trust recognises a loss allowance for forward looking expected credit losses (**ECL**) on financial assets which are measured at amortised cost. The ECL allowance is based on the credit losses expected to arise over the next 12 months of the financial asset, unless there has been a significant increase in credit risk (**SICR**) since origination. In this case, the allowance is based on the ECL for the life of the financial asset. The 12 month ECL is the portion of lifetime ECLs resulting from default events on a financial asset that are possible within the 12 months after the reporting date.

At the end of each reporting period, the Trust performs an assessment of whether a financial asset's credit risk has increased significantly since initial recognition. This is done by considering the change in the risk of default occurring over the remaining life of the financial asset.

The Trust applies a three stage approach to measuring the ECL, as described below:

- Stage 1 – For financial assets where there has not been a SICR since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default (**PD**) occurring within the next 12 months is recognised as the 12 month ECL, adjusted for forward-looking information. Stage 1 includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.

- Stage 2 – When there has been a SICR, the lifetime ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for forward-looking information. The Trust assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable forward-looking information that includes significant management judgement. Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL considers the expected behaviour of the asset as well as forward looking macro-economic forecasts. Stage 2 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 3.

Note 3. Significant accounting policies (continued)

(e) Financial assets (continued)

- Stage 3 - This includes financial assets that are deemed to be credit impaired, which generally correspond to the APRA definition of default and include exposures that are at least 90 days past due. The provision is also equivalent to the lifetime ECL. Financial assets in Stage 3 will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. A specific provision is calculated based on estimated future cash flows discounted to their present value, net of any collateral held against that financial asset.

Write-offs
Financial assets are written off, either partially or in full, against the related provision when the Trust concludes that there is no reasonable expectation of recovery and all possible collateral has been realised. Recoveries of financial assets previously written off are recognised in profit or loss and are recognised based on the cash received.

Definition of default
A default is considered to have occurred when the borrower is unlikely to pay its credit obligations in full without recourse by the Bank to the realisation of available security and/or the borrower is at least 90 days past due on their credit obligations. This definition is in line with the regulatory definition of default and also aligned to the definition used for internal credit risk management purposes across all portfolios.

Significant increase in credit risk
SICR for financial assets is assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the Trust considers qualitative and quantitative information.

For most of the Trust's asset mortgage portfolio, SICR is assessed using PD based triggers, by comparing the PD at the reporting date to the PD at origination. PD's are primarily assigned through either a Customer Risk Rating or statistical models, utilising account behaviours. For all loan portfolios, the primary indicator is in addition to the secondary SICR indicator, which is based on 30 days past due arrears information and other qualitative criteria.

Calculation of ECL
Both 12 month ECLs and lifetime ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial assets. Where ECL is modelled collectively for portfolios of exposures, it is modelled primarily as the product of the PD, the loss given default (**LGD**) and the exposure at default (**EAD**). These parameters are generally derived from internally developed statistical models combined with historical, current, and forward-looking information, including macro-economic data:

- The 12-month and lifetime PD, for accounting purposes, represent the estimation of the point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk;
- The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility; and
- The LGD represents the expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised, and the time value of money.

Incorporation of forward-looking information
The credit risk factors described above are point in time estimates based on the probability weighted forward-looking economic scenarios. The inclusion of a forward-looking component in the model anticipates changes in the economic outlook and is an important component of the provisioning process. The Company considers four forward-looking macro-economic scenarios (base, upside, downside and severe downside) over the next three years. The scenarios are then probability weighted based on the likelihood of the scenario occurring to ensure ECL appropriately captures forward looking effects and considers the range of possible economic outcomes.

Note 3. Significant accounting policies (continued)

(e) Financial assets (continued)

The scenarios, including their underlying indicators, are developed using a combination of publicly available data and internal forecasts to form the initial baseline. The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks.

Economic outlook factors that are taken into consideration include, unemployment, interest rates, gross domestic product, commercial and residential property price indexes, and require an evaluation of both the current and forecast direction of the macro-economic cycle.

Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

- Base case scenario: This scenario reflects the Company's forward looking economic assumptions where inflation remains high from supply chain effects causing further increases in cash rates. Base case assumptions are supported by RBA forecasts where available. Unemployment remains low for the short term, with modest increases occurring in later years as a result of higher cash rates having a slowing effect on the broader economy. Lower GDP growth is seen in late 2023 and 2024 due to the interest rate effects. Property prices declines are experienced aligning to rising interest rates.

- Upside scenario: This scenario represents a slight improvement on the economic conditions from the Base case.

- Downside scenario: This scenario represents stagflation effects, with rises in interest rates, no GDP growth and rising unemployment. Compared to the base case scenario, interest rate rises are not able to constrain inflation as early and therefore reach a higher peak. Other economic variables experience more stressed outcomes as a result.

- **Severe downside scenario**: This scenario also represents stagflationary economic outcomes and accounts for the potential impact of lower likelihood but higher severity macroeconomic conditions.

Governance
The parent entity's Executive Credit Committee has the delegation for reviewing and approving the methodology, and any judgements and assumptions. A Quarterly Economic Forum is held by the parent entity to discuss and approve future economic forecasts, and the associated probability weights and economic scenarios which are then incorporated into the Trust ECL model. Where applicable, management adjustments or overlays may be made to account for situations where known or expected risks and information have not been considered in the modelling process. Key areas of judgement, as determined by the parent entity and applied to the Trust's provision for impairment on loans and receivables, are reported to the parent entity's Audit Committee and Board at each reporting period.

(f) Derivative financial instruments

The Trust enters into interest rate swaps with the Bank. The purpose of these swaps is to align the basis of revenue from the financial assets purchased under equitable assignment from the Bank (note 3(e)) to the interest expense under the financial liabilities. The interest rate swaps convert the revenue from the variable and fixed rate mortgages to a floating rate basis.

As a consequence of the Bank's sale of financial assets to the Trust not qualifying for derecognition (note 3(e)), AASB *9 Financial Instruments* also denies the Trust from separately recognising derivatives that prevent a transfer of financial assets. Therefore, the Trust has not separately recognised internal interest rate swaps in the statement of financial position and no gains or losses have been recognised in the profit or loss.

Note 3. Significant accounting policies (continued)

(g) Receivables

Receivables are carried at their amortised cost.

(h) Payables

Liabilities are recognised for amounts to be paid in the future for services received. Accounts payable are non-interest bearing, stated at amortised cost and are normally settled within 30 days.

(i) Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value. Subsequent measurement is at amortised cost using the effective interest rate method.

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred (or portion of GST incurred) is not recoverable from the Australian Taxation Office ('ATO'). In these circumstances the irrecoverable GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) Clean up Provisions per Trust Deed Supplement

The Manager may direct the Bank to repurchase or transfer the remaining receivables to another REDS Series Trust where:

(i) The aggregate principal outstanding on the receivables on the last day of any Monthly Period, when expressed as a percentage of the total principal outstanding at the commencement of the Trust is below the clean up percentage of 10%; or

(ii) The tenth anniversary of the Closing Date of the Trust occurs; provided the Australian Prudential Regulation Authority (**APRA**) has advised that it will permit the Bank to exercise its rights to repurchase the remaining receivables.

Note 4. Auditor's remuneration

The auditor's remuneration for the Trust is paid by the parent entity, the Bank. The following amounts were attributable to the Trust in relation to the audit, transaction testing and the securitisation set up fees for the Trust.

Fees paid to the Auditor of the Trust, PricewaterhouseCoopers (2021: KPMG Australia):

	2022 $	2021 $
Audit services:		
Audit of financial reports	**7,000**	4,301
Other Services:		
Other Services	**2,800**	4,608
	9,800	8,909

Note 5. Operating expenses

	2022 $'000	2021 $'000
Servicing fee with related entities	**(703)**	(937)
Management fee with related entities	**(281)**	(375)
Trustee and custodian fees	**(121)**	(161)
Bad debt write off (net of recoveries)	**-**	(20)
Movement in provision for mortgage loans	**71**	908
Other expenses	**(90)**	(87)
	(1,124)	(672)

Note 6. Receivables

Transactions with ultimate parent

Interest receivable from mortgagors	**473**	460
Interest collections receivable from servicer	**49**	64
Principal collections receivable from servicer	**113**	531
	635	1,055

Receivables to be recovered within 12 months. As at 31 August 2022, there were no overdue amounts from receivables (2021: nil)

	2022	2021
	$'000	$'000
Note 7. Financial Assets		
Mortgage loans	**296,467**	398,490
Less: provision for impairment – Stage 1 - 12 Months ECL	**(17)**	(62)
Less: provision for impairment – Stage 2 – Lifetime ECL	**(83)**	-
Less: provision for impairment – Stage 3 – Lifetime ECL	**(27)**	(54)
Less: provision for impairment – Stage 3 – Specific	**(74)**	(156)
	296,266	398,218

Reported expected credit loss

In determining the reported ECL of $201,000, the Trust has taken into account the facts, circumstances and forecasts of future economic conditions and supportable information available at the reporting date. Provisioning assumption updates have been made during FY22 which include a complete review of overlays and adjustments, which are held for external factors not captured in the core models, including specific industry or portfolio stresses and uncertainties related to model precision, as well as updated scenarios and scenario weightings to cater for economic uncertainties. Management overlays have been refined based on industry data observed over the period and management judgement. Key emerging risks have been considered, including:

- Construction industry stress, primarily related to cost increases and fixed price contracts impacting builders' profitability;
- Forecast commercial property price declines and reductions in capitalisation rates impacting the commercial property sector;
- Inflationary / supply chain pressures impacting retail trade, transport, hospitality, arts and recreation; an
- Potential stress in fixed rate loans within the home loans portfolio caused by interest rate rises

The final ECL reflects an unbiased and probability-weighted amount, determined by the evaluation of a range of possible forward looking economic outcomes, rather than being based on a best or worst case scenario. The four scenarios were Upside, Base case, Downside and Severe, that were probability weighted as follows:

- Upside & Base: 55% (FY21: 47.5%)
- Downside & Severe: 45% (FY21: 52.5%)

The table below provides a summary of macro-economic assumptions used in the Base and Downside scenarios as at 31 August 2022.

	GDP (annual change) %	**Unemployment rate %**	**Residential Property prices (annual change) %**	**Commercial Property prices (annual change) %**	**Cash rate^ %**
Base -2022	3.25	3.25	(5.00)	(3.00)	2.90
Base -2023	1.75	3.50	(10.00)	(5.00)	2.95
Base -2024	1.75	4.00	(5.00)	(5.00)	2.90
Downside- 2022	0.25	5.00	(14.50)	(17.25)	3.50
Downside- 2023	-	7.00	(14.50)	(11.25)	3.75
Downside- 2024	0.75	7.50	(6.50)	(5.25)	3.50

^ The forecasts in the table reflect calendar year end numbers. The peak cash rate forecast in the base case occurs in 2023 and is projected to reach 3.1%. Due to further changes in market sentiment since 31 August 2022, the market implied cash rate peak has increased beyond the numbers provided in the table. Analysis has shown that updating the cash rate forecast to incorporate these changes would not have a material impact on the expected credit losses.

	2022	2021
	$'000	$'000
Note 8. Payables		
Distribution payable to income unitholder the ultimate parent entity	**747**	669
Swap interest payable to the ultimate parent entity	**191**	466
Interest payable to noteholders	**416**	225
Income/excess spread reserve	**150**	150
Amounts payable to ultimate parent entity	**70**	95
Other	**14**	19
	1,588	1,624

Payables to be settled within 12 months. As at 31 August 2022, there were no overdue amounts from payables (2021: nil)

Note 9. Interest bearing liabilities

Class A1 notes	**256,409**	348,344
Class A2 notes	**15,951**	21,670
Class AB notes	**5,767**	7,835
Class B notes	**10,916**	14,832
Class C notes	**8,221**	11,168
Class D notes	**3,804**	5,167
Class E notes	**4,416**	5,999
	305,484	415,015

A floating charge exists over all the assets of the Trust securing the amounts owing to each noteholder and any other secured creditor.

Note 10. Units on issue

	No. of units	**2022 $**	2021 $
Income Unit	1	**10**	10
Capital Unit	10	**100**	100
	11	**110**	110

The beneficial interest in the Series Trust is divided into Units in accordance with the Trust Creation Deed. The Units have been issued to the Unitholders in accordance with the Master Trust Deed and the Trust Creation Deed.

The income unit holder in the Trust is the Bank. The Income Unitholder has only the right to receive payments of the Income Unit Amount in relation to the Income Unit only to the extent that funds are available for the purposes in accordance with this Deed. The Income Unitholder has no entitlement to the capital of the Series Trust.

The capital unit holder in the Trust is the Bank. The Capital Unitholders only have the right to receive the balance of any principle collections available in accordance with the Trust Deed and Series Supplement and only to the extent that there are funds, or on the termination of the Trust the capital remaining after the payment (or the provision for payment) of all other outgoings and amounts by the Trustee.

Note 11. Net liabilities attributable to unitholders

	2022 $'000	2021 $'000
Net liabilities attributable to unitholders	**(201)**	(272)
Total net liabilities attributable to unitholders	**(201)**	(272)
Movements in net liabilities attributable to unitholders		
Opening Balance	**(272)**	(1,180)
Profit / (loss) attributable to unitholder	**2,431**	3,699
Distributions during the period	**(2,360)**	(2,791)
Closing balance	**(201)**	(272)

Note 12. Notes to statement of cash flows

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash and cash equivalents	**9,970**	17,094

(b) Reconciliation of net operating income to net cash from operating activities

Profit from operating activities	**2,431**	3,699
Change in operating assets and liabilities during the financial year:		
Adjustments for non cash items:		
Movement in impairment provision	**(71)**	(908)
(Increase)/decrease in receivables	**4**	231
Decrease/(increase) in payables	**(114)**	(414)
Net cash inflow from operating activities	**2,250**	2,608

Note 13. Financial risk management

The Trust operates within the governance and risk management frameworks of the Bank of Queensland Group (the Group). The use of financial instruments is fundamental to the Group's business of providing banking services to our customers. The associated financial risks (primarily credit, market and liquidity risks) are a significant portion of the Group's key material risks.

The Group and the Trust adopts a "managed risk" approach to its banking activities in which the articulation of a risk aware culture is prevalent throughout the Group's credit, market and liquidity risk policies and procedures. The Board of the ultimate Parent has adopted policies in relation to the assessment, management and monitoring of these risks and ownership of the frameworks within which these risks are managed reside with the Group Chief Risk Officer.

The Group Chief Risk Officer contributes towards the achievement of the Group's corporate objectives through the operationalisation and progressive development of the Group's risk management function. The continued improvement of the Group's risk management function focusses on a number of key areas, with particular emphasis on:

1. the efficiency and effectiveness of the Group's credit, market and liquidity risk management process, controls and policies to support the Bank's customer proposition in line with its risk appetite;
2. providing management and the Board with risk reporting that contributes to the further development of sound corporate governance standards;
3. partnering with the Compliance function to support maintaining regulatory compliance in line with regulators' expectations; and
4. contributing to the Group achieving risk based performance management.

Group Risk is an independent function and is responsible for providing the framework, policies and procedures needed for managing credit, market and liquidity risk throughout the Group. Policies are set in line with the governing strategy and risk guidelines set by the Board.

Monitoring

The Group's enterprise risk management framework incorporates active management and monitoring of a range of risks including (but not limited to):

1. Market;
2. Credit; and
3. Liquidity.

Note 13. Financial risk management (continued)

a) Market risk

Market risk is the risk that movements in market rates and prices will result in profits or losses to the Group. The objective of market risk management is to manage and control market risk and to minimise its impact on the Group.

i. Interest rate risk management

The operations of the Trust are subject to the risk of interest rate fluctuations as a result of mismatches in the timing of the repricing of interest rates on the Trust's assets and liabilities. The Trust is not materially impacted by market interest rates due to economic hedging of interest bearing assets and interest bearing liabilities.

ii. Foreign exchange risk

It is the Trust's policy not to carry material foreign exchange rate exposures, net of associated hedging instruments. At balance date, there are no net material foreign exchange rate exposures in the Trust.

The Trust uses cross currency swaps to hedge its exchange rate exposures arising from borrowing off-shore in foreign currencies.

b) Credit risk

Credit risk is the potential loss arising from the possibility that customers or counterparties fail to meet contractual payment obligations to the Trust as they fall due.

The Board of the ultimate Parent has implemented a structured framework of policies, systems and controls to monitor and manage credit risk comprising:

- documented credit risk management principles which are disseminated to all staff involved with the lending process;
- documented Credit policies, lending standards and procedures;
- a process for approving risk, based on tiered delegated approval authorities, whereby the largest exposures are assessed by the Executive Credit Committee consisting of senior executives and senior risk managers, chaired by the Group Chief Risk Officer;
- risk grading the Bank's commercial exposures based on items inclusive of financial performance and stability, organisational structure, industry segment and security support. Exposures within this segment of the portfolio are generally subject to annual review which may include reassessment of the assigned risk grade;
- an automated scorecard and decision strategy model for the Bank's retail portfolio inclusive of home loan and personal loan lending. This model is supported by experienced risk assessment managers and a credit hindsight framework; and
- a series of management reports detailing industry concentrations, counterparty concentrations, loan grades and security strength ratings.

Note 13. Financial risk management (continued)

b) Credit risk (continued)

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury and financial markets risk policies. Credit risk on derivative contracts used for these purposes is minimised as counterparties are either qualifying central counterparties or recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

i. Maximum exposure to credit risk

The amounts disclosed are the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the Balance Sheet, the exposure to credit risk equals their carrying amount.

The carrying amount of financial assets represents the maximum credit exposure.

ii. Credit quality

The credit quality categories of financial assets have been determined based on Standard & Poor's credit ratings, APRA risk weightings and the ultimate parents standard risk grading. The categories are classified as below:

- High grade – generally corresponds to Standard & Poor's credit ratings AAA+ to BBB-;
- Satisfactory – generally corresponds to Standard & Poor's credit rating BB+ to B;
- Weak – generally corresponds to Standard & Poor's credit ratings up to B; and
- Unrated – Loans and advances which have been classified as unrated are not secured, however these are not deemed to be weak.

The maximum exposure to credit risk and the credit quality at the reporting date was:

	2022 $'000	2021 $'000
High Grade		
Cash and cash equivalents	**9,970**	17,094
Mortgage loans	**296,467**	398,490
Total credit exposures	**306,437**	415,584

The Trust has a credit exposure of $306,437 thousand comprised mainly of loan assets of $296,437 thousand. 97% of the underlying loans are Stage 1 based on the ultimate parents ECL model classification.

Note 13. Financial risk management (continued)

c) Liquidity risk

Liquidity risk arises from the possibility that the Trust is unable to meet its financial obligations as they fall due or incurs a loss on converting a position or selling an asset for cash to meet such obligations. These obligations include the repayment of liabilities on demand or at their contractual maturity, the repayment of borrowings as they mature and the payment of interest on borrowings. The table below set out the amount of contractual maturity of financial liabilities.

				Total contractual cashflows			
31 August 2022	Carrying amount	At Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	Total
	$,000	$,000	$,000	$,000	$,000	$,000	$,000
Financial liabilities							
Payables	1,588	-	1,588	-	-	-	1,588
Interest bearing liabilities	305,484	-	4,780	14,173	322,754	-	341,707
Total financial liabilities	307,072	-	6,368	14,173	322,754	-	343,295

				Total contractual cashflows			
31 August 2021	Carrying Amount	At Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	Total
	$,000	$,000	$,000	$,000	$,000	$,000	$,000
Financial liabilities							
Payables	1,624	-	1,624	-	-	-	1,624
Interest bearing liabilities	415,015	-	4,391	12,934	438,960	-	456,285
Total financial liabilities	416,639	-	6,015	12,934	438,960	-	457,909

14. Fair value of financial instruments

The fair value estimates for instruments carried at amortised cost have, materially, equated to their carrying value and are based on the methodologies and assumptions below. Although, in an environment of rising interest rates, there is an opportunity for divergence between carrying value and fair value this is not expected to be significant as at the reporting date.

Cash and cash equivalents, receivables and payables

The fair value approximates to their carrying value as they are short term in nature or are receivable or payable on demand.

Financial Assets

The fair values are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments.

Interest bearing liabilities

The fair values are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments.

The Group measures fair values using the following fair value hierarchy and valuation techniques, which reflect the significance of the inputs used in making the measurements:

Level 1: This category includes assets and liabilities for which the valuation is determined from inputs based on unadjusted quoted market prices in active markets for identical instruments;

Level 2: This category includes assets and liabilities for which the valuation is determined from inputs other than quoted prices included within level 1, which are observable either directly or indirectly. This includes the use of discounted cash flow analysis, option pricing models and other market accepted valuation models; and

Level 3: This category includes assets and liabilities for which the valuation includes inputs that are not based on observable market data. This includes equity instruments where there are no quoted market prices.

The fair value hierarchy classification of instruments held at amortised cost:

- Financial Assets – Level 3.
- Interest bearing liabilities – Level 2.

There was no movement between levels during the year.

The carrying values for instruments at amortised cost approximate their fair values.

15. Related Party disclosures

The Manager of the Trust is B.Q.L. Management Pty. Ltd., incorporated in Australia. The Manager is a wholly owned subsidiary of Bank of Queensland Limited, incorporated in Australia.

a) Parent entity

Bank of Queensland Limited is the immediate and ultimate parent entity of the Trust.

15. Related Party disclosures (continued)

b) Key management personnel (KMP)

Key management personnel are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Trust. This includes all Executive and Non-Executive Directors.

The Directors of the Manager of the Trust at any time during the year, and to the date of this report, are:

Name	Date of appointment	Date of resignation (if applicable)
Racheal Kellaway	7 June 2022	
Tim Ledingham	31 August 2021	
Adam McAnalen	31 August 2021	28 July 2022
Ewen Stafford	11 November 2019	7 June 2022
David Watts	7 June 2022	

No compensation is paid to key management personnel directly by the Trust. Total key management personnel compensation is paid by the ultimate parent entity, Bank of Queensland Limited.

c) Transactions with other related parties

The transactions with related entities were disclosed in the notes to the financial statements and were made on normal commercial terms and conditions and at market rates except where indicated.

Management fees

The Trust pays management fees to the Manager, which is a wholly owned subsidiary of the Bank. The fee is calculated as a monthly basis point charge applied to the trust balance in the determination period.

Servicing fees

The Trust pays servicing fees to the ultimate parent entity. The fee is calculated as a monthly basis point charge applied to the trust balance in the determination period.

Note 16. Contingencies and commitments

The Trust has no material contingent liabilities or commitments as at 31 August 2022 (2021: Nil).

Note 17. Events subsequent to reporting date

There has not arisen, in the interval between the end of the year and the date of this report, any item, transaction or event of a material and unusual nature, likely, in the opinion of the Trustee, to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

Note 18. Net liabilities attributable to unitholders

The Trust has recorded net liabilities attributable to unitholders of $201,000 (2021: $272,000). This deficiency is solely due to the recognition of life to date impairment provisions which did not involve the outflow of cash. The impairment provision will be assessed each year and as the contracts mature the provision will be reversed over the life of the Trust, any write offs will be expensed as incurred and on this basis the financial statements have been prepared on a going concern basis. The impairment provision as shown in Note 7 was $201,000 (2021: $272,000).

Independent auditor's report

To the investors of Series 2018-1 REDS Trust

Our opinion

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of Series 2018-1 REDS Trust (the Trust) as at 31 August 2022 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The financial report comprises:

- the statement of financial position as at 31 August 2022
- the statement of changes in unitholders' funds for the year then ended
- the statement of cash flows for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the Statement by the Trust Manager
- the Trustee's Report.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Trust, B.Q.L. Management Pty Limited (the Trust Manager), and Perpetual Trustee Company Limited (the Trustee) in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 2 in the financial report, which describes the basis of accounting. The financial report has been prepared to assist the Trust Manager to meet the financial reporting requirements of the Master Trust Deed dated 10 February 1998 (as amended). As a result, the financial report may not be suitable for another purpose. Our report is intended solely for Series 2018-1 REDS Trust and its investors and should not be used by parties other than Series 2018-1 REDS Trust and its investors. In addition, our report should not be distributed to parties other than Series 2018-1 REDS Trust, its investors, the Trust Manager and the Trustee. Our opinion is not modified in respect of this matter.

Other information

The Trust Manager is responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 August 2022 but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Trustee and the Trust Manager for the financial report

The Trust Manager is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the Trustee determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Trust Manager is responsible for assessing the ability of the Trust to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trust Manager either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

The Trustee is responsible for overseeing the Trust's financial reporting process.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
23 December 2022