



BFS

Financial Report

for the year ended 31 December 2016

Baptist Financial Services Australia Limited

ABN 56 002 861 789 AFSL 311 062

Registered Office: Level 1, Corner of Rawson Street and Carlingford Road, Epping NSW 2121
Phone: 1300 650 542 Fax: 1300 784 699 Email: clients@bfs.org.au

A Delegated Body Of Australian Baptist Ministries

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
ABN 56 002 861 789

DIRECTORS' REPORT

The Directors of Baptist Financial Services Australia Limited (BFS) submit herewith the Annual Financial Report of the Company for the financial year ended 31 December 2016. The Directors report as follows:

- (1) The names, qualifications, experience and special responsibilities of each Director in office at any time during the year and up to the date of this report are:

Name: Owen Hsiao-Fen Chew Lee
Qualifications: BSc, BCA, FCA, GAICD
Roles: Board Chairman from 11 December 2014, Deputy Board Chairman to 11 December 2014, Chairman of Assets and Liabilities Committee, Member of Board Governance & Remuneration Committee from 12 December 2014.
Church: Member of Gordon Baptist Church, NSW
Term of Office: Appointed a Director from 22 July 2008
Experience: Over 25 years financial services experience with Westpac Banking Corporation, including Senior roles in Regulatory Affairs (International and Domestic), Treasury, Strategy and Mergers and Acquisitions, Finance and Corporate Finance in Australia and Asia. Qualified as a Chartered Accountant with Ernst & Young.

Name: John Andrews
Qualifications: Dip FP
Roles: Member of Audit, Risk & Compliance Committee from 28 September 2016; Member of Assets & Liabilities Committee from 1 December 2016.
Church: Member of Syndal Baptist Church, Vic
Term of Office: Appointed a Director from 26 May 2016
Experience: Director, Operations & Finance, Syndal Baptist Church. Formerly Sales Executive: Proprietor & Operator of Matialda's Books: National Financial Planning Manager for Guild Financial Services; National Practices Manager for Investor Group and various other positions with Financial Planning and Life Insurance Companies.

Name: Gregory Paul Holland
Qualifications: BBus (Accounting), CPA, GAICD
Roles: Member of the Board Governance & Remuneration Committee from 10 March 2014 (Chairman of committee from 11 July 2014).
Church: Member of Lake Joondalup Baptist Church, WA
Term of Office: Appointed a Director from 11 February 2014
Experience: Business Manager for the Baptist Churches of Western Australia. Former Chief Executive Officer of Ray Village Aged Services Inc, WA, former General Manager Finance / Chief Financial Officer and General Manager HR and Shared Services at Capricorn Society Ltd, WA, former Chief Financial Officer of University of Western Sydney, NSW and former Director Management Services of Edith Cowan University, WA.

Name: Ross Martin Langford
Qualifications: BCom, FFin, MAICD, Memb ASFA, F.FINSIA
Roles: Member of Audit, Risk & Compliance Committee from 28 May 2015 until 18 February 2016; Member of Assets & Liabilities Committee from 18 February 2016.
Church: Member of Gynea Baptist Church, NSW
Term of Office: Appointed a Director from 13 March 2015
Experience: Head of Credit Assurance with a major overseas bank (Rabobank). Formerly Head of Finance, Property & Administration at St George Christian School and formerly Senior Relationship Management, Regional Lending Manager and Senior Manager positions with Commonwealth Bank, BankWest and State Bank NSW. Currently Director of Christian Super and member of Risk Management Association.

Name: Darren Leigh McDonald
Qualifications: BA (Accounting), CPA, MBA
Roles: Member of Assets & Liabilities Committee from 20 June 2014; Member of Audit Risk & Compliance Committee from 20 June 2014 (Chairman of the committee from 12 December 2014).
Church: Member of Golden Grove Baptist Church Inc, SA
Term of Office: Appointed a Director from 29 May 2014
Experience: Business Manager of Kings Baptist Grammar School Inc, SA, former Executive / Finance Manager of Woolworths Ltd, Board of Kings Baptist Grammar School Inc, SA including 2 years as Chairman, Chairman and Treasurer of Golden Grove Baptist Church Inc, SA.

Name: Sally Anne Mullins
Qualifications: BBus (Business Administration), Grad Dip HR & IR
Roles: Member of the Board Governance & Remuneration Committee from 9 December 2015.
Church: Member of Ashburton Baptist Church, VIC
Term of Office: Appointed a Director from 9 December 2015
Experience: Organisational Development and Projects Manager at a boutique Leadership and Talent consultancy business. Formerly a Senior Human Resource Consultant at National Australia Bank with over 20 years experience in various HR roles in Australia and overseas.

(continued)

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
ABN 56 002 861 789

DIRECTORS' REPORT
(continued)

Name: Allan Kenneth Priest
Qualifications: Holder of Unrestricted Building Work & Plumbing/Gasfitting contracting and restricted Electrical Worker licenses enabled through various Trade qualifications, also Diploma for Public Health Inspectors.
Roles: Deputy Chairman from 18 February 2016. Member of Audit, Risk & Compliance Committee (Chairman of committee to 12 December 2014); Member of Assets and Liabilities Committee; Member of Board Governance & Remuneration Committee to 12 December 2014.
Church: Member of Rostrevor Baptist Church Inc, SA
Term of Office: Appointed a Director from 31 May 2005
Experience: Director then Managing Director of family plumbing and building business 1972-2003; Manager of two Commercial Rental Properties 1989 - 2013; Member of Baptist Churches of South Australia Inc (BCSA) Assembly Board 2004 - 2015, including as President 2006-2009, also past service (including as Chairman) on numerous other BCSA Committees and working parties; Chairman of Baptist Care (SA) Inc 2007 - 2015 after joining Board in 2006; current Director of Baptist Care (SA) Foundation Nominees Pty Ltd and Member of Kings Baptist Association of Kings Baptist Grammar School Inc; and 28 years' past service in numerous senior leadership roles of Rostrevor Baptist Church Inc (SA) including as Treasurer, Administrator & Chairman.

Name: Alan Leslie Soden
Qualifications: FAIM, MAIE
Roles: Member of the Assets and Liabilities Committee to 12 December 2014, Member of the Audit, Risk and Compliance Committee to 12 December 2014, Member of the Communications Due Diligence Committee to 12 December 2014 and Member of the Board Governance & Remuneration Committee. Secretary of the company since 20 November 2001.
Term of Office: Appointed a Director from 13 August 2002
Church: Member of Port Macquarie Baptist Church, NSW
Experience: Interim Pastor, Port Macquarie Baptist Church, former Director and Chief Executive Officer of Kairos Prison Ministry Australia, Member of Baptist Churches of New South Wales Property Trust, Trustee Director BCS Foundation, Certified CEO and alumni of the CEO Institute, former Chairman of Hopestreet, former General Secretary of the Association of Baptist Churches of NSW & ACT, former Board Member and Vice President of the Bible Society of NSW, former National Secretary and Member of the National Council of the Baptist Union of Australia and former Secretary of Baptist Insurance Management Pty Ltd, Recognised Baptist Minister, previously in general management roles of training, marketing, public affairs and sales with the Australian Gaslight Company.

Name: Andrew David Staunton
Qualifications: BBus (Economics and Finance), MDiv, Grad Dip Theology
Roles: Member of Board Governance & Remuneration Committee from 18 February 2016, Member of Audit, Risk and Compliance Committee from 28 May 2015.
Church: Member of Newmarket Baptist Church, Vic
Term of Office: Appointed a Director from 28 May 2015
Experience: Pastor Newmarket Baptist Church; Business Banker, National Australia Bank (1997-2003), Minister of Religion (2003 - Present), Ordained by the BUV 2010. Building and Project Management Consultant (2012 - Present)

(2) **Meetings of Directors**

During the year, 27 meetings of directors (including committees of directors) were held. Attendances by each Director during the year are set out below:

	State	Board		ARCCo		ALCo		BGRCo	
		H	A	H	A	H	A	H	A
Owen H Chew Lee	NSW	15	11			5	4	3	1
John Andrews	VIC	10	10	1	1				
Gregory P Holland	WA	15	15	4	3			3	3
Ross M Langford	NSW	15	14	1	1	4	4		
Darren L McDonald	SA	15	15	4	4	5	5		
Sally A Mullins	VIC	15	13					3	3
Allan K Priest	SA	15	15	4	4	5	5	1	1
Alan L Soden	NSW	15	15					3	3
Andrew D Staunton	VIC	15	12	4	4			3	2

H=Meetings held during the year, or during the term of appointment; **A**=Attended; **ARCCo**=Audit, Risk & Compliance Committee; **ALCo**=Assets & Liabilities Committee; **BGRCo**= Board Governance & Remuneration Committee.

(3) **Principal Activities**

The principal activities of the Company during the financial year were the provision of financial solutions for the particular needs of churches and Christian ministries, the facilitation of the financing of churches and ministries through participating State Baptist Unions/Associations and the Baptist Union of Australia, and, subject to capital adequacy needs, the making of grants to State Baptist Unions/Associations and the Baptist Union of Australia for ministry.

There has been no significant change in those activities during the financial period.

The entity's short term strategic objectives are to:

- Maintain and introduce relevant financial services for Baptist entities and Christian ministries in Australia
- Maintain the adequacy of funds and reserves

The entity's long term objectives are to:

- Further develop recognition of BFS by the Australian Baptist community as its primary financial services provider
- Continue to extend the use of BFS services within Baptist Churches, congregations and Christian organisations across Australia

To achieve these objectives, the entity has adopted the following strategies:

- Sponsor nationally oriented support services for Churches
- Appoint staff as required in accordance with the Strategic Priorities
- Continue to enhance existing financial services and develop new products
- Review relevant regulatory frameworks for the ongoing provision and extension of BFS services.

(continued)

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
ABN 56 002 861 789

DIRECTORS' REPORT
(continued)

(4) **Financial Performance Disclosures**

Result and Review of Operations

The operating surplus/(deficit) from ordinary operations for the year was: \$4,426,310. After deducting Grants made to Baptist entities of \$1,118,900, the Net Operating Income for the year was \$3,307,320.

BFS resources ministry through making available loans to churches and other Christian ministries. This ministry objective is funded from accumulated reserves and through inviting investments for the Charitable Investment Scheme.

During the year the Board continued the review of the capital adequacy framework. This framework indicated that an appropriate capital structure, including capital contributions and retention of surpluses, be maintained to fund the expected future growth in operations and to meet desired Prudential Equivalent levels of capital.

The company operates a registered Charitable Investment Scheme to raise funds so that loans and advances can be made to resource Baptist and other Christian ministries. Loans and advances primarily comprise secured commercial loans to these entities. The Financial Report provides additional information in Note 14 regarding Risk Management.

Liquidity was maintained consistently during the year at levels well above the Board's determined minimum of \$25M plus 20% of total assets, and significantly in excess of the 20% requirement set out in BFS's Identification Statement lodged with ASIC.

Key Performance Measures

The company measures its performance through the use of quantitative benchmarks. The benchmarks are used by the directors to assess whether the company's short-term and long-term objectives are being achieved.

	2016		2015	
	Actual	Benchmark	Actual	Benchmark
Growth in total client investments	7.5%	7.0%	7.9%	4.0%
Growth in loans advanced	27.7%	7.0%	5.2%	4.0%
Growth in total assets	7.7%	5.0%	8.0%	4.0%
Ratio of loans advanced to total client investments	59.3%	55.0%	48.8%	55.0%

(5) **Indemnification of Officers and Auditors**

During the financial year the company incurred a premium in respect of a contract insuring the Directors of the Company (as named in Note 21 of the Financial Report) and all Executive Officers of the company against a liability incurred as such a Director or Executive Officer to the extent permitted by the Corporations Act 2001. The insurance contract does not permit disclosure of the premium or terms relating to such Directors or Executive Officers. No indemnity has been given or insurance premiums paid for the Auditor.

(6) **Subsequent Events**

On 19 April 2013 the Australian Prudential Regulation Authority (APRA) issued a Discussion Paper on the continuing terms of the exemption given to Church funds under the Banking Act 1959. On 20 May 2013 the Australian Securities & Investments Commission issued a public Consultation Paper 207 on two options for amending exemptions currently available to charitable investment fundraisers under Regulatory Guide 87. After considering the responses received, and issuing revised draft proposals, on 6 September 2016 APRA issued a New Exemption Order effective from 1 January 2017, including transitional arrangements to 31 December 2017. Following the conclusion of consultations ASIC issued ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/813 which modifies certain exemptions that apply to BFS and will also require the amendment of its current Australian Financial Services Licence to issue debentures to retail clients after 31 December 2017. The effect of the new regulations also means that BFS cannot issue debentures for a term of less than 31 days to new retail non associated clients from 1 January 2017 with transitional relief for existing retail clients until 31 December 2017.

In the opinion of the Directors, apart from this matter, since the end of the year to the date of this report, no other matter or circumstance has arisen that has significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

(7) **Entity**

The company is incorporated under the Corporations Act 2001 and is an entity limited by guarantee. If the company is wound up the constitution states that each member is required to contribute a maximum of \$100 towards any outstanding obligations of the entity. At balance date the total amount that members of the company are liable to contribute if the company was wound up was \$900 (last year \$900).

(8) **Auditors Independence**

The Directors received a written declaration from the Auditor as set out on page 6.

DIRECTOR



Dated at Sydney this 21st day of April 2017

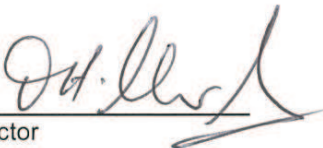
BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
ABN 56 002 861 789

DECLARATION BY DIRECTORS

The Directors of the Company declare that:

- 1 The financial statements satisfy the requirements of the Australian Charities and Not For Profits Commission Act 2012 including:
 - a. complying with Australian Accounting Standards - Reduced Disclosure Requirements; and
 - b. giving a true and fair view of the financial position as at 31 December 2016 and of the financial performance and cashflows for the year ended on that date of the company.
- 2 In the directors opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with subsection 60.15(2) of the Australian Charities and Not-for-profit Commission Regulation 2013.



Director

Dated at Sydney this 21st day of April 2017

AUDITORS INDEPENDENCE DECLARATION

To the Directors

We declare that, to the best of our knowledge and belief, during the year ended 31 December 2016 there have been no contraventions of any applicable code of professional conduct or similar statutory requirement in relation to the audit.

Tyndale KSG Pty Ltd



Lawrence R Green FCA
Director

Dated at Sydney this 21st day of April 2017

INDEPENDENT AUDIT REPORT

To: The Members of Baptist Financial Services Australia Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Baptist Financial Services Australia Limited, which comprises the Balance Sheet as at 31 December 2016, and the Income Statement, Statement of Changes in Equity Accumulated Funds and Reserves and the Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration of the entity.

In our opinion the financial report of Baptist Financial Services Australia Limited has been prepared in accordance with Division 60 of the *Australian Charities and Not-for-Profits Commission Act 2012*, including:

- (a) giving a true and fair view of the registered entity's financial position as at 31 December 2016 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards – Reduced Disclosure Requirements, and Division 60 the *Australian Charities and Not-for-profits Commission Regulation 2013*.

Basis for opinion

We conducted the audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the registered entity in accordance with the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Responsibility of Those Charged with Governance for the Financial Report

The responsible entities of the registered entity are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation of the financial report is appropriate to meet the requirements of the ACNC Act and the needs of the members. The responsible entities' responsibility also includes such internal control as the responsible entities determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In preparing the financial report, the responsible entities are responsible for assessing the registered entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the responsible entities either intend to liquidate the registered entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

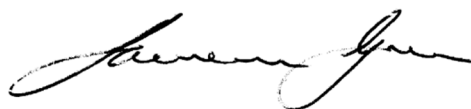
We also:

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

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

Tyndale KSG Pty Limited
Authorised Audit Company

Dated: 21 April 2017
Sydney



Lawrence R Green FCA, Director

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
 ABN 56 002 861 789

BALANCE SHEET
 as at 31 December 2016

	Note	2016 \$	2015 \$
ASSETS			
Cash and cash equivalents	2	2,649,784	1,260,367
Loans and advances - interest bearing	3	188,836,962	147,823,437
Other receivables and prepayments	6	1,204,403	1,946,522
Investments	7	152,988,043	169,525,292
Property	8	2,416,556	2,416,556
Other assets	9	163,007	181,692
TOTAL ASSETS		348,258,755	323,153,866
LIABILITIES			
Payables - interest bearing	10	318,154,002	295,933,430
Trade and other Payables	11	3,161,917	2,747,386
TOTAL LIABILITIES		321,315,919	298,680,815
NET ASSETS		26,942,837	24,473,051
ACCUMULATED FUNDS AND RESERVES			
Accumulated funds	12	11,001,456	8,688,233
Contributions reserve	13(a), 1(g)	14,950,000	14,950,000
Future grants reserve	13(d), 1(h)	991,381	834,818
TOTAL FUNDS AND RESERVES		26,942,837	24,473,050

This Balance Sheet is to be read in conjunction with the accompanying notes.

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
ABN 56 002 861 789

INCOME STATEMENT
For the year ended 31 December 2016

		2016	2015
		\$	\$
	Note		
Gross Interest revenue	17	14,418,023	13,730,303
Gross Interest expense	17	(7,630,360)	(7,628,786)
Net interest income		<u>6,787,663</u>	<u>6,101,517</u>
Other income	15	324,419	80,781
Allowance for impairment of financial assets	5	(21,712)	-
Operating expenses	16	<u>(2,666,776)</u>	<u>(2,298,532)</u>
NET OPERATING INCOME	17	<u><u>4,423,594</u></u>	<u><u>3,883,766</u></u>

This Income Statement is to be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY ACCUMULATED FUNDS & RESERVES
 For the year ended 31 December 2016

	Accumulated Funds	Contributions Reserve	Future Grants Reserve	Total
	\$	\$	\$	\$
2016				
INCOME & OTHER COMPREHENSIVE INCOME				
Net Operating Income	4,423,594	-	-	4,423,594
Other Comprehensive Income				
Items that will not be reclassified subsequently to the Income Statement:				
Grants to Baptist Entities	(1,118,990)	-	(834,818)	(1,953,808)
Total Comprehensive Income	3,304,604	-	(834,818)	2,469,786
Balance brought forward	8,688,233	14,950,000	834,818	24,473,050
Transfer (to)/from Reserves	(991,381)	-	991,381	-
Balance carried forward	<u>11,001,456</u>	<u>14,950,000</u>	<u>991,381</u>	<u>26,942,836</u>
2015				
INCOME & OTHER COMPREHENSIVE INCOME				
Net Operating Income	3,883,766	-	-	3,883,766
Other Comprehensive Income				
Items that will not be reclassified subsequently to the Income Statement:				
Grants to Baptist Entities	(1,116,090)	-	(710,829)	(1,826,919)
Provision for Impairment written back	841,286	-	-	841,286
Total Comprehensive Income	3,608,962	-	(710,829)	2,898,133
Balance brought forward	5,914,088	14,950,000	710,829	21,574,917
Transfer (to)/from Reserves	(834,818)	-	834,818	-
Balance carried forward	<u>8,688,233</u>	<u>14,950,000</u>	<u>834,818</u>	<u>24,473,050</u>

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
 ABN 56 002 861 789

STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

		2016 \$	2015 \$
	Note		
<i>Cash flows (used in)/from operating activities</i>			
Interest received from loans		7,435,829	6,748,110
Interest from other investments		7,761,815	7,326,881
Donations, subscriptions & sundry income		324,419	80,781
Interest paid to investors		(7,630,360)	(7,628,786)
Cash paid to suppliers and employees		<u>(2,345,835)</u>	<u>(2,692,185)</u>
Net cash from operating activities	20 (2)	<u>5,545,868</u>	<u>3,834,801</u>
<i>Cash flows (used in)/from investing activities</i>			
Church & other loans advanced	20 (3)	(88,405,207)	(84,122,404)
Church & other loan payments received	20 (3)	47,369,970	66,466,209
Payments for leasehold improvements, software & web design, furniture & computers		(72,811)	(108,649)
Grants paid to Baptist Entities		(1,953,808)	(1,826,919)
(Increase)/Decrease in other receivables		(11,129)	(64,933)
(Increase)/Decrease in investments		6,903,147	(13,713,586)
Received from investors (net)		<u>22,220,572</u>	<u>32,336,496</u>
Net cash from investing activities		<u>(13,949,266)</u>	<u>(1,033,786)</u>
Net (decrease)/increase in cash		(8,403,397)	2,801,015
Cash at the beginning of the period		<u>27,245,977</u>	<u>24,444,962</u>
Cash at the end of the period	20 (1)	<u>18,842,579</u>	<u>27,245,977</u>

This Statement of Cash Flows is to be read in conjunction with the accompanying notes

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements are general purpose statements that have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements of the Australian Accounting Standards Board (AASB), to satisfy the requirements of the Australian Charities and Not For Profits Commission Act 2012 and the Corporations Act 2001. 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. Significant accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

- a) The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

b) Property, Plant and Equipment

Leasehold Improvements, Office Furniture and Equipment are stated at cost less accumulated amortisation or depreciation less any impairment in value. These are written off over the estimated useful life of each asset using the prime cost method at the following rates:

Computers	33.33%
Software & Web Design	33.33%
Furniture and Equipment	10.00%
Leasehold Improvements	Remaining term of lease

The carrying values of Property, Plant and Equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Land and Buildings are recognised at cost less any subsequent accumulated depreciation on Buildings and accumulated impairment losses.

c) Income Tax

No income tax has been provided for in these accounts as the Company has been endorsed by the Australian Taxation Office as an income tax exempt charitable institution, and is also registered as a Charity with the Australian Charities & Not-for-profits Commission.

d) Membership

The Company is a company limited by guarantee. Membership consists of each person who is a member of the Board. At balance date there were 9 members.

The liability of members in the event of a deficit upon winding up the Company is limited to \$100. If upon winding up there remains a surplus, then the first part of the surplus, up to the limit of Contributions Reserve, will be repaid to the Contributor, and any remaining surplus given or transferred to State Baptist Unions and Associations or, failing that, to some other institution(s) having objectives and restrictions on distributions similar to the Company, such institutions being determined by the members.

e) Statement of Compliance

The financial report complies with Australian Accounting Standards - reduced disclosure requirements, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial Assets

Financial investments, other than held to maturity investments, are adjusted to fair value and any resulting increment or decrement is taken direct to the Income Statement. Upon disposal of the investments any surplus or deficit is taken to the Income Statement.

g) Contributions Reserve

Contributions by State Baptist Unions and Associations to financially support the company are taken to this reserve. In the event of a winding up, these amounts are subordinated to all creditor obligations.

h) Future Grants Reserve

A proportion of the Surplus determined by the Directors is set aside each year to the Future Grants Reserve for Baptist ministry. In addition, grants may be made as approved by the Directors to Baptist ministry and charged as an expense (refer Note 17).

i) Impairment of Financial Assets

No less frequently than at each reporting date the Board assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs. Bad debts are written off when identified. If an allowance for impairment has been recognised in relation to a loan, write offs for bad debts are made against the allowance. If no allowance for impairment has previously been recognised, write offs for bad debts are recognised as expenses directly in the Income Statement.

The various components of impaired assets are as follows:

"Restructured loans" are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members.

"Past-due loans" means a loan in arrears which has not been operated within its key terms by the borrower for at least 90 days and which is not an impaired loan.

j) Loans and advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of resale. After initial measurement, amounts are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment where applicable.

k) Client Investments and BFS Borrowings from Clients

These are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Revenue and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest revenue and expense is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

When a loan is classified as impaired the consolidated group ceases to recognise interest revenue and other income earned but not yet received.

No interest is charged on loans where repayments are in arrears and the prospects of a contribution from the borrower are minimal. However, accrued interest may be recovered as part of the recovery of the debt.

m) Comparative Figures

Where necessary the comparative figures have been changed to reflect the accounting policies and Accounting Standards applied in the current year.

(n) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at-call with banks, other short-term highly liquid investments with original maturities of three months or less, and deposits held at-call or on 31 days notice.

(o) Goods and Services Tax (GST)

Where relevant, 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 expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(p) Application of new and revised accounting standards

In the current year, the entity has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016, and therefore relevant for the current year end.

Amendments to AASBs and the new Interpretation that are mandatorily effective for the current year

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality': completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

AASB 2015-4 'Amendments to Australian Accounting Standards - Financial Reporting Requirements for Australian Groups with a Foreign Parent': The amendments to AASB 128 align the relief available in AASB 10 and AASB 128 in respect of the financial reporting requirements for Australian groups with a foreign parent. The amendments require that the ultimate Australian entity shall apply the equity method in accounting for interest in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation: prohibits entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to AASB 138 Intangible Assets introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. As the Entity already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Entity's financial statements.

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

	2016 \$	2015 \$
NOTE 2 CASH & CASH EQUIVALENTS		
Cash and cash equivalents	<u>2,649,784</u>	<u>1,260,366</u>
There are no restrictions on access to these amounts.		
NOTE 3 LOANS AND ADVANCES - interest bearing		
Secured Loans (see below)	184,943,093	142,719,427
Less: Allowance for Impairment of Secured Loans (Note 1(i))	<u>(3,640,450)</u>	<u>(3,618,738)</u>
<i>Secured Loans</i>	<u>181,302,643</u>	<u>139,100,689</u>
Other interest bearing loans (unsecured)	964,288	794,672
<i>Secured Loans to related entities (Note 21)</i>	<u>6,570,031</u>	<u>7,906,817</u>
<i>Unsecured Loans to related entities (Note 21)</i>	-	21,260
Sub-total	<u>188,836,962</u>	<u>147,823,437</u>
	<u>188,836,962</u>	<u>147,823,437</u>

All loans and advances are to non-financial institution clients and are interest bearing except as referred to in Note 14.

Mortgage securities, offset arrangements or an undertaking from the Baptist Churches of New South Wales Property Trust to enter into a Mortgage, are held for secured loans and certain loans to related entities.

The average of the total security value held against all secured loans (Loan to value Ratio - LVR) at 31 December 2016 was 30% (2015 29%) with a median ratio of 30% (2015 29%). The current policy of the company is that loans to Baptist entities are not to exceed 75% of the security valuation and loans to other entities are not to exceed 67% of security valuation. This loan to value ratio can be varied by the provision of other appropriate security at the discretion of the Directors. This is not to imply that all existing loans meet these criteria.

NOTE 4 FINANCIAL COMMITMENTS

Outstanding Loan Commitments

Loans approved but not advanced	<u>53,249,385</u>	<u>31,552,320</u>
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Loan Redraw Facilities

Loan redraw facilities available	<u>25,660,782</u>	<u>25,865,493</u>
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Undrawn Overdraft Loan Facilities

Loan facilities available for overdraft loans are as follows:

Total value of facilities approved	10,150,202	9,279,537
Amounts advanced (Included in Secured Loans - Note 3)	<u>7,219,189</u>	<u>6,573,116</u>
<i>Net undrawn value</i>	<u>2,931,013</u>	<u>2,706,421</u>

These commitments are contingent on investors maintaining credit standards, loan terms & conditions and ongoing repayment terms on amounts drawn.

Computer Software Licensing & Maintenance

The Company has costs committed under contracts for software licensing & maintenance as follows:

Not later than one year	87,309	84,661
Later than one year but not later than two years	87,309	84,661
Later than two years but not later than five years	174,618	136,959
Over five years	<u>261,927</u>	<u>189,257</u>
	<u>611,163</u>	<u>495,537</u>

Bureau and Settlement Services

The Company has costs committed under a contract for Bureau & Settlement services as follows:

Not later than one year	153,894	150,414
Later than one year but not later than two years	-	-
Later than two years but not later than five years	-	-
Over five years	<u>-</u>	<u>-</u>
	<u>153,894</u>	<u>150,414</u>

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
 ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
 For the year ended 31 December 2016

	2016 \$	2015 \$
NOTE 4 FINANCIAL COMMITMENTS (continued)		
<i>Analysis of Loans and Advances</i>		
Debts receivable:		
overdrafts	7,219,189	6,573,116
not longer than 3 months	7,659,202	9,796,260
longer than 3 months and not longer than 12 months	8,905,851	4,701,344
longer than 1 year and not longer than 5 years	47,482,147	28,274,346
longer than 5 years	121,211,023	101,648,478
Allowance for Impairment of Loans	<u>(3,640,450)</u>	<u>(3,618,738)</u>
	<u>188,836,962</u>	<u>147,374,806</u>
Current Assets - not longer than 12 months	161,002,393	112,622,018
Non Current Assets - longer than 12 months	<u>27,834,569</u>	<u>34,752,788</u>
	<u>188,836,962</u>	<u>147,374,806</u>
NOTE 5 IMPAIRMENT OF FINANCIAL ASSETS (Note 1(i))		
<i>Allowance for Impairment of Loans:</i>		
Opening balance	3,618,738	3,618,738
Charge for the year	21,712	-
Amount written off	-	-
Closing balance	<u>3,640,450</u>	<u>3,618,738</u>
<i>Allowance for Impairment of Investments:</i>		
Opening balance	158,714	1,000,000
Realisation of Impairment	(158,714)	-
Transfers (to)/from other comprehensive income	-	(841,286)
Transfers (to)/from income statement	-	-
Closing balance	<u>0</u>	<u>158,714</u>
NOTE 6 OTHER RECEIVABLES & PREPAYMENTS		
Interest Accrued	814,702	1,594,323
Other Receivables	389,701	275,446
Prepayments	-	76,753
	<u>1,204,403</u>	<u>1,946,522</u>
NOTE 7 INVESTMENTS		
<i>Held to maturity - at cost - see Note 1 (f)</i>		
- Listed convertible preference shares - Market Value \$34,702,088 (2015 \$31,195,426)	38,047,973	32,160,561
- Other listed securities - Market Value \$712,500 (2015 11,461,350)	934,650	11,528,893
- Unlisted securities:		
Approved Deposit Taking Institutions		
Australian Banks	92,888,295	99,736,767
Australian Subsidiaries of Overseas Banks	10,507,911	12,039,141
Other	7,709,214	11,218,644
Non-Bank investments		
at cost	2,900,000	3,000,000
Less: Allowance for Impairment	-	(158,714)
	<u>152,988,043</u>	<u>169,525,292</u>

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
 ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
 For the year ended 31 December 2016

	2016 \$	2015 \$
NOTE 7 INVESTMENTS (continued)		
Investments - Maturity Analysis		
not longer than 3 months	16,192,795	25,985,611
longer than 3 months and not longer than 12 months	26,905,740	35,756,757
longer than 1 year and not longer than 2 years	13,953,182	20,353,386
longer than 2 years and not longer than 3 years	31,467,316	17,517,711
longer than 3 years and not longer than 4 years	27,490,012	29,486,556
longer than 4 years and not longer than 5 years	10,659,190	19,502,126
longer than 5 years	25,385,158	19,988,495
maturity at discretion of issuer	934,650	934,650
	<u>152,988,043</u>	<u>169,525,292</u>
NOTE 8 PROPERTY - at Cost		
Property for use by Baptist Union of NSW affiliated Churches and associated organisations on a rent free basis.	<u>2,416,556</u>	<u>2,416,556</u>
NOTE 9 OTHER ASSETS		
Furniture and Equipment		
Leasehold Improvements, Furniture & Computers - at cost	315,157	305,693
Less: Accumulated Depreciation	<u>(250,077)</u>	<u>(232,989)</u>
	65,080	72,704
Other Intangible Assets		
Software & Web Design - at cost	613,179	562,731
Less: Accumulated Depreciation	<u>(515,252)</u>	<u>(453,743)</u>
	97,927	108,988
	<u>163,007</u>	<u>181,692</u>
NOTE 10 PAYABLES - interest bearing based on actual maturity date		
Investments at call	108,714,802	91,337,498
Term Investments	<u>209,439,200</u>	<u>204,595,932</u>
	<u>318,154,002</u>	<u>295,933,430</u>
PAYABLES - interest bearing based on withdrawal experience		
<i>Current Liabilities - payable not later than 12 months</i>		
- Investments from Baptist & Christian organisations	23,874,184	22,776,350
- Loan offset Savings Accounts	4,357,230	3,808,924
- Investments from Individuals & other organisations	<u>9,947,066</u>	<u>8,926,738</u>
	<u>38,178,480</u>	<u>35,512,012</u>
<i>Non Current Liabilities - payable later than 12 months</i>		
- Investments from Baptist & Christian organisations	175,077,349	167,026,571
- Loan offset Savings Accounts	31,953,022	27,932,106
- Investments from Individuals & other organisations	<u>72,945,151</u>	<u>65,462,741</u>
	<u>279,975,522</u>	<u>260,421,418</u>
Investments are classified according to maturity date and the rollover experience		
Term Investments and BFS Borrowings from Clients - Maturity Analysis		
At call	108,714,802	91,337,498
Longer than at call and not longer than 3 months	88,973,809	93,709,987
Longer than 3 and not longer than 12 months	98,983,191	85,715,533
Longer than 1 year and not longer than 2 years	17,970,242	15,851,681
Longer than 2 years and not longer than 5 years	3,511,958	9,318,731
Longer than 5 years	-	-
	<u>318,154,002</u>	<u>295,933,430</u>
Concentration of Payables		

There were no individuals or organisations which in aggregate represent more than 10% of the liabilities for Payables - Interest Bearing. The majority of the payables are with Baptist Churches in Australia or with individuals or organisations having an association an association with Baptist Churches in Australia.

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

	2016 \$	2015 \$
NOTE 11 TRADE AND OTHER PAYABLES		
Accrued term investment interest	2,723,511	2,461,413
Sundry creditors	144,606	157,925
Income Received in Advance	103,125	-
Employee Benefit Provisions	190,675	128,048
	<u>3,161,917</u>	<u>2,747,386</u>
NOTE 12 ACCUMULATED FUNDS - Total		
Balance at beginning of year	8,688,232	5,914,087
Operating Surplus	4,423,594	4,725,053
Grants expended to Baptist ministries	(1,118,990)	(1,116,090)
Transfer (to)/from Reserves	(991,381)	(834,818)
Balance at end of year	<u>11,001,455</u>	<u>8,688,232</u>
ACCUMULATED FUNDS - New South Wales & ACT		
Balance at beginning of year	4,729,208	2,803,098
Share of Operating Surplus after Grants	2,322,242	2,951,109
Share of Grants expended to Baptist ministries	(554,357)	(560,075)
Transfer (to)/from Reserves	(530,365)	(464,924)
Balance at end of year	<u>5,966,728</u>	<u>4,729,208</u>
ACCUMULATED FUNDS - Victoria		
Balance at beginning of year	1,304,655	1,068,707
Share of Operating Surplus after Grants	618,445	574,114
Share of Grants expended to Baptist ministries	(228,717)	(237,046)
Transfer (to)/from Reserves	(116,918)	(101,120)
Balance at end of year	<u>1,577,465</u>	<u>1,304,655</u>
ACCUMULATED FUNDS - South Australia		
Balance at beginning of year	1,162,481	906,935
Transfer to Northern Territory	(9,001)	-
Share of Operating Surplus after Grants	565,819	461,052
Share of Grants expended to Baptist ministries	(111,510)	(89,536)
Transfer (to)/from Reserves	(136,293)	(115,970)
Balance at end of year	<u>1,471,496</u>	<u>1,162,481</u>
ACCUMULATED FUNDS - Northern Territory		
Balance at beginning of year	-	-
Transfer from South Australia	9,001	-
Share of Operating Surplus after Grants	17,107	-
Share of Grants expended to Baptist ministries	-	-
Transfer (to)/from Reserves	(5,132)	-
Balance at end of year	<u>20,976</u>	<u>-</u>
ACCUMULATED FUNDS - Tasmania		
Balance at beginning of year	208,860	181,334
Share of Operating Surplus after Grants	74,060	68,360
Share of Grants expended to Baptist ministries	(27,902)	(29,037)
Transfer (to)/from Reserves	(13,847)	(11,797)
Balance at end of year	<u>241,171</u>	<u>208,860</u>
ACCUMULATED FUNDS - Western Australia		
Balance at beginning of year	1,185,827	893,769
Share of Operating Surplus after Grants	697,850	530,209
Share of Grants expended to Baptist ministries	(110,577)	(112,983)
Transfer (to)/from Reserves	(176,182)	(125,168)
Balance at end of year	<u>1,596,918</u>	<u>1,185,827</u>
ACCUMULATED FUNDS - Baptist Union of Australia		
Balance at beginning of year	97,201	60,243
Share of Operating Surplus after Grants	128,071	114,958
Share of Grants expended to Baptist ministries	(85,926)	(62,161)
Transfer (to)/from Reserves	(12,644)	(15,839)
Balance at end of year	<u>126,702</u>	<u>97,201</u>

In accordance with Memorandums of Understanding entered into between BFS and the Baptist Unions and Associations of New South Wales, Victoria, South Australia, Tasmania, Western Australia and the Baptist Union of Australia Inc, a portion of the surpluses will be allocated in accordance with the directions of those entities.

During the year it was agreed with the Baptist Churches of South Australia Inc and the Baptist Union of Northern Territory that a separate allocation be provided for the Baptist Union of Northern Territory.

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
 ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

	2016 \$	2015 \$
NOTE 13 RESERVES		
a) Contributions Reserve - Total		
Balance at beginning of year	14,950,000	14,950,000
Contributions Received	-	-
Balance at end of year	<u>14,950,000</u>	<u>14,950,000</u>
Contributions Reserve - New South Wales & ACT		
Balance at beginning of year	8,000,000	8,000,000
Contribution Received	-	-
Balance at end of year	<u>8,000,000</u>	<u>8,000,000</u>
Contributions Reserve - Victoria		
Balance at beginning of year	3,250,000	3,250,000
Contribution Received	-	-
Balance at end of year	<u>3,250,000</u>	<u>3,250,000</u>
Contributions Reserve - South Australia		
Balance at beginning of year	1,275,000	1,275,000
Contribution Received	-	-
Balance at end of year	<u>1,275,000</u>	<u>1,275,000</u>
Contributions Reserve - Tasmania		
Balance at beginning of year	425,000	425,000
Contribution Received	-	-
Balance at end of year	<u>425,000</u>	<u>425,000</u>
Contributions Reserve - Western Australia		
Balance at beginning of year	1,500,000	1,500,000
Contribution Received	-	-
Balance at end of year	<u>1,500,000</u>	<u>1,500,000</u>
Contributions Reserve - Baptist Union of Australia Inc		
Balance at beginning of year	500,000	500,000
Contribution Received	-	-
Balance at end of year	<u>500,000</u>	<u>500,000</u>

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
 ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

	2016 \$	2015 \$
NOTE 13 RESERVES (Continued)		
d) Future Grants Reserve - Total		
Balance at beginning of year	834,818	710,829
Transfer (to)/from accumulated funds	991,381	834,818
Expended during current year (See Note 14)	<u>(834,818)</u>	<u>(710,829)</u>
Balance at end of year	<u><u>991,381</u></u>	<u><u>834,818</u></u>
<i>Future Grants Reserve - New South Wales & ACT</i>		
Balance at beginning of year	464,924	417,362
Transfer (to)/from accumulated funds	530,365	464,924
Grants expended to Baptist ministries	<u>(464,924)</u>	<u>(417,362)</u>
Balance at end of year	<u>530,365</u>	<u>464,924</u>
<i>Future Grants Reserve - Victoria</i>		
Balance at beginning of year	101,120	88,840
Transfer (to)/from accumulated funds	116,918	101,120
Grants expended to Baptist ministries	<u>(101,120)</u>	<u>(88,840)</u>
Balance at end of year	<u>116,918</u>	<u>101,120</u>
<i>Future Grants Reserve - South Australia</i>		
Balance at beginning of year	115,970	88,820
Transfer to NT	(3,858)	
Transfer (to)/from accumulated funds	136,293	115,970
Grants expended to Baptist ministries	<u>(112,112)</u>	<u>(88,820)</u>
Balance at end of year	<u>136,293</u>	<u>115,970</u>
<i>Future Grants Reserve - Northern Territory</i>		
Balance at beginning of year	-	
Transfer from SA	3,858	
Transfer (to)/from accumulated funds	5,132	
Grants expended to Baptist ministries	<u>(3,858)</u>	
Balance at end of year	<u>5,132</u>	
<i>Future Grants Reserve - Tasmania</i>		
Balance at beginning of year	11,797	9,791
Transfer (to)/from accumulated funds	13,847	11,797
Grants expended to Baptist ministries	<u>(11,797)</u>	<u>(9,791)</u>
Balance at end of year	<u>13,847</u>	<u>11,797</u>
<i>Future Grants Reserve - Western Australia</i>		
Balance at beginning of year	125,168	94,509
Transfer (to)/from accumulated funds	176,182	125,168
Grants expended to Baptist ministries	<u>(125,168)</u>	<u>(94,509)</u>
Balance at end of year	<u>176,182</u>	<u>125,168</u>
<i>Future Grants Reserve - Baptist Union of Australia</i>		
Balance at beginning of year	15,839	11,507
Transfer (to)/from accumulated funds	12,644	15,839
Grants expended to Baptist ministries	<u>(15,839)</u>	<u>(11,507)</u>
Balance at end of year	<u>12,644</u>	<u>15,839</u>

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 14 RISK MANAGEMENT

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Consolidated Entity's risk management framework. The Board maintains an Audit, Risk & Compliance Committee (ARCCo), an Assets & Liabilities Committee (ALCo), a Board Governance & Remuneration Committee (BGRCo) to oversee the financial reporting and audit and risk management processes.

The ARCCo's major role, within the BFS risk management organisational structure, is to monitor BFS's approved policies and procedures in relation to:

- Internal Controls & Risk Management
- Statutory and Financial Reporting Requirements
- Auditor Independence & Performance
- Internal Audit
- Compliance with Laws & Policies
- Review any other matters as determined by the Board from time to time.

The ALCo's major role is to monitor BFS's approved policies and procedures in relation to the management and control of:

- Credit Risk
- Liquidity Risk
- Market Risk
- Balance Sheet Risk
- Capital Management Risk

The BGRCo's major role is to make recommendations to the Board in respect of:

- the Nomination and Roles of New Directors
- the Nomination of Directors to Board Committees
- Annual Board & Committee Assessment
- Professional Development of Directors & Staff
- Conflict of Interest Disclosure & Management
- the Selection, Interview of a CEO, Establish Objectives and Review Performance
- the Selection, Interview of Special Board Appointees and Review Performance in conjunction with the CEO
- the Monitoring of staff performance & salaries, director remuneration, continuous improvement systems and processes with the CEO

BFS has undertaken the following strategies to minimise the risks arising from financial instruments:

Market risk

The company has no exposure to currency risk.

The company's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. Interest rate exposures are reviewed at least monthly and provided regularly to ALCo and Board meetings.

Details of the interest rate risk profile are set out on the next page.

Credit risk – loans

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Company policy is to maintain no more than \$1.5 million in unsecured loans, with the balance of loans secured by mortgage, offset arrangements, an undertaking from the Baptist Churches of New South Wales Property Trust to enter into a Mortgage, or an interest in property.

Company policy in relation to non-real property asset financing and corporate credit cards is, in each instance, to limit the facilities offered such that the risk level created is not significant. Current policy is that asset financing will not exceed \$1 million and outstanding corporate credit card limits will not total more than \$1 million.

Significant accounting judgements

The significant accounting judgements, related to the determination of the allowance for impairment of loans, are set out in this Note.

Credit risk – investments

The risk of losses from investments is reduced by the limited concentration in any one entity. Company policy is to limit any investments with one investee to a maximum of 10% of total funds under management with the exception that this limit is not applied to investments in the "big four" Australian banks. All securities and other deposits with Institutions must have an investment grade rating by Standard and Poor's from AAA to BBB-, or equivalent, with the exception of investments lodged with an APRA regulated bank, building society or credit union (ADI). Non ADI investments are limited to a maximum of 5% of total investments.

Liquidity risk

The company is required under its ASIC approved Charitable Investment Scheme to maintain at least 20% of total investments from clients in readily realisable investments in order to maintain adequate funds for meeting withdrawal requests. The ratio is checked at least monthly by management and reported regularly to ALCo and the Board.

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 14 RISK MANAGEMENT (Continued)

Interest Revenue and Interest Expense

Operational Risks

Operational risk is a risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of the overall Company's standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
 - Requirements for the reconciliation and monitoring of transactions
 - Compliance with regulatory and other legal requirements
 - Documentation of controls and procedures
 - Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
 - Requirements for the reporting of operational losses and proposed remedial action
 - Development of contingency plans
 - Training and professional development
 - Ethical and business standards
 - Risk mitigation, including insurance where this is effective
- Compliance with the company's standards is supported by a program of internal audit.

Interest Rate Risk

The effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

	Average	Interest	Average
	balance	at rates applicable at balance date	rate %
2016			
<i>Financial Assets</i>			
Cash and liquid assets	2,643,671	24,930	0.94
Investments with other financial institutions	158,289,245	6,702,014	4.23
Loans and Advances	154,301,594	7,691,079	4.98
	<u>315,234,510</u>	<u>14,418,023</u>	<u>4.57</u>
<i>Financial Liabilities</i>			
Client Investments	289,325,640	7,630,360	2.64
	<u>289,325,640</u>	<u>7,630,360</u>	<u>2.64</u>
2015			
<i>Financial Assets</i>			
Cash and liquid assets	1,137,095	68	0.01
Investments with other financial institutions	166,198,672	6,827,860	4.11
Loans and Advances	140,764,968	6,902,443	4.90
	<u>308,100,735</u>	<u>13,730,372</u>	<u>4.46</u>
<i>Financial Liabilities</i>			
Client Investments	251,349,051	7,628,786	3.04
	<u>251,349,051</u>	<u>7,628,786</u>	<u>3.04</u>

At the date of this report interest rate hedging with respect to fixed loans is held against the principal of loans totalling \$10 million and hedging contracts totalling \$3 million have been entered into against interest rate increases.

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 14 RISK MANAGEMENT (Continued)

Interest Revenue and Interest Expense

Credit Risk

The maximum exposure to credit risk at balance date in relation to loans and advances is the carrying amount.

At balance date this amounted to \$188,839,678 (2015 \$147,823,437). Loans and advances primarily comprise commercial loans to Baptist and other Christian entities secured by mortgage over freehold property, offset arrangements or an interest in property. The loan portfolio comprises a mix of loan to value ratios, ranging from conservative to high.

The total risk exposure for all unimpaired loans exceeding \$2 million at balance date was \$99,410,616 representing 24 borrowers (last year 21 totalling \$70,637,439). Each of these loans is fully secured by mortgage over freehold property, offset arrangements or an interest in property.

During the year loan facilities of \$27.5 million were approved for the purpose of the redevelopment of a Baptist Church comprising a mix of residential apartments and church facilities. As at 31 December 2016 the balances of these loan facilities totalled \$3,029,833.

Financial assets that have been individually determined to be impaired as at the reporting date and the factors the company considered in determining that they are impaired are as follows:

The factors taken into account in determining that certain loans are impaired result from the company's due diligence on borrowers who are in default of the terms of their loan contract. This typically leads to ensuring that sound management of the borrower's operations and cash flows are in place and that there is an expectation of the borrower being able to meet renegotiated loan terms.

The total of loans past due not including loans referred to above stood at \$762,916 at year end (last year \$1,199,697).

The carrying amount of a loan that would otherwise be past due or impaired and whose terms have been renegotiated are as follows:

At 31st December 2016 the Company had loans with a carrying value totalling \$6,232,857 (2015 \$6,854,739) with a client representing a significant concentration of credit risk exposure. BFS has security by way of first mortgage and an equitable charge over the client's assets which fully secure the loans made by BFS to the client. A contingent liability may exist in respect of an assurance of funding given by BFS for the approved cashflows and liabilities of the client until at least 31 December 2017. BFS has also indemnified each Director of this client in the event of a claim being made against them for insolvent trading where the liability for such claim is due to the failure of BFS to perform its obligations under the funding agreement.

Apart from the above, Baptist Financial Services Australia Ltd does not have any other material credit risk exposure to any single borrower or group of borrowers under financial instruments entered into by it.

Net Fair Values

The net fair values of receivables and fixed interest investments are determined by discounting cash flows, at the market interest rates of similar investments, to their present value.

For other assets and other liabilities the net fair value approximates their carrying value.

No financial assets or financial liabilities are readily traded on organised markets in standardised form.

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
 ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 14 RISK MANAGEMENT (Continued)

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term investments and fixed interest rate loans) or after due notice is given by the Company (variable loans and savings investments).

The Company was exposed to price risk in relation to 1 (last year 1) debt instrument investment with a maturity value of \$1,000,000 and a carrying value of \$841,287. During the year this investment was sold at it's carrying value.

	2016 \$	2015 \$
NOTE 15 OTHER REVENUE		
Sundry revenue	<u>324,419</u>	<u>80,781</u>
	<u>324,419</u>	<u>80,781</u>
NOTE 16 OTHER EXPENSES		
Employee Benefits and Costs	1,232,440	1,047,841
Website, Software and Computer Systems	377,614	350,780
Occupancy	108,229	108,613
Sponsorships	119,694	87,000
Depreciation and Amortisation	91,496	110,629
Other General Administration Expenses	737,303	593,668
General administration	<u>2,666,776</u>	<u>2,298,532</u>
NOTE 17 OPERATING SURPLUS		
Operating surplus	4,423,594	3,883,766
<i>is arrived at after including as revenue:</i>		
Interest received	14,418,023	13,730,303
<i>and after charging as expenses:</i>		
Auditor's remuneration		
- Audit fees	25,000	24,000
(No other benefits were received by the auditor)		
Amortisation of leasehold improvements	7,942	7,920
Amortisation of Other Intangible Assets	61,509	74,421
Interest paid	7,630,360	7,628,786
Depreciation of furniture & equipment and software	22,045	28,288
Employee Benefits	62,627	4,009
Allowance for impairment of loans	21,712	-
<i>and after payment of Grants shown in the Statement of Changes in Accumulated Funds and Reserves:</i>		
Grants paid from current year result	1,118,990	(1,116,090)
Grants paid from Future Grants Reserve	834,818	(710,829)

The total number of employees at balance date was - 15 (2015 - 12).

NOTE 18 SEGMENT REPORTING

The company is a National Baptist Ministry, being a Delegated Body of the Baptist Union of Australia Inc, and provides the facilitation of the financing of Baptist entities affiliated with participating Baptist Unions and and other Christian Churches & organisations.

The Company holds and operates with an Australian Financial Services Licence - AFSL 311062

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 19 SUBSEQUENT EVENTS

On 19 April 2013 the Australian Prudential Regulation Authority (APRA) issued a Discussion Paper on the continuing terms of the exemption given to Church funds under the Banking Act 1959. On 20 May 2013 the Australian Securities & Investments Commission issued a public Consultation Paper 207 on two options for amending exemptions currently available to charitable investment fundraisers under Regulatory Guide 87. After considering the responses received, and issuing revised draft proposals, on 6 September 2016 APRA issued a New Exemption Order effective from 1 January 2017, including transitional arrangements to 31 December 2017. Following the conclusion of consultations ASIC issued ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/813 which modifies certain exemptions that apply to BFS and will also require the amendment of its current Australian Financial Services Licence to issue debentures to retail clients after 31 December 2017. The effect of the new regulations also means that BFS cannot issue debentures for a term of less than 31 days to new retail non associated clients from 1 January 2017 with transitional relief for existing retail clients until 31 December 2017.

NOTE 20 NOTES TO THE STATEMENT OF CASHFLOWS

	2016	2015
	\$	\$
(1) Reconciliation of Cash		
Cash at bank	2,649,784	1,260,366
Investments	16,192,795	25,985,611
	<u>18,842,579</u>	<u>27,245,977</u>

Cash includes cash at bank and on hand and investments at call or maturity within 90 days. It is noted that cash and investments which, if required, are readily realisable within 5 business days amounted to \$128,766,726 (last year \$125,920,209) at balance date.

(2) Reconciliation of Surplus to net cash from operating activities

Operating surplus	4,423,594	3,883,766
Amortisation	7,942	7,920
Depreciation	83,554	102,709
(Decrease)/Increase in allowance for Impairment of Investments	(158,714)	-
(Decrease)/Increase in accrued term investment interest	248,780	(510,546)
Decrease/(Increase) in sundry debtors and accrued income	779,621	344,688
(Increase)/Decrease in prepayments	76,753	2,254
(Decrease)/Increase in allowance for Impairment of loans	21,712	-
(Decrease)/Increase in employee benefits	62,626	4,009
	<u>5,545,868</u>	<u>3,834,801</u>

(3) Cash flows (used in)/from investing activities

Loans advanced and Loan payments received include the inflows and outflows of Overdraft Loans and Instalment Loans.

NOTE 21 RELATED PARTIES

The Baptist Union of Australia approves the appointment of up to 12 Directors of the Company. The Baptist Union of Australia invites each of the Baptist Union of New South Wales, Baptist Union of Victoria, Baptist Churches of South Australia Inc, the Baptist Union of Tasmania & The Baptist Union of Western Australia Inc to nominate one Director for each 12% or part thereof of client funds held on investment at 31 December each year for appointment as a Director of the Company.

The Baptist Union of NSW, Baptist Churches of South Australia Inc, the Baptist Union of Victoria, the Baptist Union of Tasmania and The Baptist Union of Western Australia Inc provided office accommodation facilities for the Company during the year and were compensated for this as follows:

	2016	2015
	\$	\$
Baptist Union of NSW	92,469	91,933
Baptist Union of Victoria	7,056	6,960
The Baptist Union of Western Australia Inc	5,103	5,103
Payment is made to a company associated with a Company Secretary	3,600	3,600

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
 ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 21 RELATED PARTIES (continued)

BFS holds monies on investment from various ministries of the Baptist Union of New South Wales, Baptist Union of Victoria, Baptist Churches of South Australia Inc, the Baptist Union of Tasmania, The Baptist Union of Western Australia Inc and the Baptist Union of Australia Inc, all of whom are considered to be related entities. Some of these monies are special purpose funds and some are monies which are held on investment until applied to general purposes. All investments held and loans and advances made are on normal terms and conditions no more favourable than those available to other persons unless otherwise specified below.

	2016 Principal	2015 Principal
<i>New South Wales & ACT</i>		
Investments held:	22,629,642	32,453,702
Loans and Advances:	6,559,564	7,521,111
<i>Victoria</i>		
Investments held:	18,380,271	17,181,485
Loans and Advances:	10,467	15,107
<i>South Australia</i>		
Investments held:	27,201,095	23,391,708
Loans and Advances:	-	-
<i>Northern Territory</i>		
Investments held:	233,101	
Loans and Advances:	-	
<i>Tasmania</i>		
Investments held:	1,276,558	1,353,339
Loans and Advances:	-	-
<i>Western Australia</i>		
Investments held:	5,939,219	13,707,588
Loans and Advances:	-	391,860
<i>Baptist Union of Australia Inc</i>		
Investments held:	2,581,242	2,970,766
Loans and Advances:	-	-
Totals		
Investments held:	78,241,128	91,058,588
Loans and Advances:	6,570,031	7,928,077

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 21 RELATED PARTIES (continued)

Disclosures on Key Management Personnel (KMP)

Remuneration of KMP

The *key management personnel* are those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly, including any Director of the company. Control is the power to govern the financial and operating policies of the company so as to obtain benefits from its activities.

Key management personnel (KMP) comprise the 9 (2015: 9) Directors of the Company, the Chief Executive Officer and Chief Operations Officer. The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for, but excluding out of pocket expense reimbursements, was as follows:

	2016	2015
	\$	\$
Key Management Personnel Compensation	496,913	470,902

All remuneration to Directors was approved by the Baptist Union of Australia Inc and by the members at the last Annual General Meeting of the company.

Loans to Key Management Personnel (KMP)

	2016	2015
	\$	\$
Aggregate value of 5 year term loans to KMP at beginning of year	<u>36,121</u>	<u>4,084</u>
Aggregate value of 5 year term loans to KMP at balance date	<u>35,948</u>	36,121
Aggregate value of 5 year term loans disbursed to KMP during the year	<u>8,061</u>	35,000
Aggregate value of highest indebtedness of 5 year term loans to KMP during the year	<u>44,185</u>	<u>39,098</u>
Aggregate of interest earned on 5 year term loans to KMP during the year	<u>2,655</u>	756
Aggregate of interest earned if 5 year term loans to KMP were made on an arms length basis	<u>2,702</u>	808
Number of KMP in the group	<u>2</u>	<u>2</u>

There are no loans which are impaired in relation to the 5 year term loan balances with KMP.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans which are impaired in relation to the loan balances with close family relatives of the KMP.

Other Transactions Between Related Parties include Investments from KMP

	2016	2015
	\$	\$
Total value of term and savings investments from KMP	<u>19,734</u>	<u>19,935</u>
Total interest paid on investments to KMP	<u>124</u>	<u>128</u>

Loans to Directors and Key Management Personnel

BFS staff, the CEO and other Key Management Personnel may receive concessional rates of interest on their loans and facilities. There are no loans that are impaired in relation to the loan balances with staff, the CEO or other Key Management Personnel. Directors may have received interest on investments with BFS during the financial year in relation to personal or related entity investment accounts held with BFS. Interest has been paid on terms and conditions no more favourable than those ordinarily available on similar accounts to clients of BFS. BFS policy for receiving investments from other related parties and in respect of other related party transactions, is that all transactions are approved and investments accepted on the same terms and conditions that apply to client investors for each type of investment. There are no service contracts to which Key Management Personnel or their close family members are an interested party, except as otherwise disclosed in this report.

BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED
ABN 56 002 861 789

NOTES TO AND FORMING PART OF THE ACCOUNTS
For the year ended 31 December 2016

NOTE 22 ECONOMIC DEPENDENCY

The Company has an operational dependency on three suppliers of services:

The first supplier is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act 1959 and:

- facilitates settlement arrangements for the Company with bankers for direct entry and cheque transactions;
- provides computer bureau services for the hosting of software and the maintenance of database records.

The second supplier provides and maintains the application software for client account and transaction records, internet account access, BPay and general ledger services used by the Company.

The third supplier provides the application software for the imaging and retrieval of client and Company records.

NOTE 23 CONTINGENT LIABILITIES

Apart from the contingent liability arising from an indemnity set out in Note 14, there are no other contingent and unrecorded obligations of a material amount for which provision has not been made.